



## China's Work Report, 13th Five Year Guideline and the Emerging Debate

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Li Keqiang, Premier of the State Council of the People's Republic of China, delivered the Government Work Report at the fourth session of the 12th National People's Congress (NPC) in March 2016. The report is an important document to understand China's performance in the previous year and China's goals, targets and areas of emphasis for the coming year.

This year's NPC session also became noteworthy as China's 12<sup>th</sup> Five Year Guideline (2011-15) came to an end and the 13<sup>th</sup> Five Year Guideline was approved by NPC for the period 2016-2020. This is the first such guideline under President Xi Jinping's leadership, which is expected to play a decisive role in the journey to build the country into a moderately prosperous society.

The two authoritative documents provide a blueprint of China's development in the era of 'new normal'.<sup>1</sup> Consequently, the prospects of China's growth and development have become an issue of debate worldwide. Even *People's Daily* (on May 9, 2016) added to the debate when it cited an "authoritative insider"<sup>2</sup>, who is presumed to be a high level official in China, suggesting that the

<sup>1</sup> China's shift towards 'new normal' is a process where high growth rate turns into medium rate as a result of outliving the earlier growth model of the economy.

<sup>2</sup>In 'V' shape, the growth rate of an economy declines to a point and then picks up without any delay. The decline and recovery makes the 'V' shape. Examples of 'V' Shape recession include economic recession of 1953 in the US. 'U' shaped recession is longer than a 'V' shaped recession. The 1973-75 recession in the United States is considered as an example of 'U' shape. The economy picked up after a very low growth of two years.

In 'L' shape, an economy does not return to trend line growth for many years. The decline in growth rate is followed by a flat line which makes the shape of an 'L'. This is considered as the most difficult phase compared to two other shapes of economic recessions.

trend of China's economic growth in the next few years will be characterized by 'L' shape rather than 'U' and 'V' shape.<sup>1</sup>

This paper aims to extend the debate on the subject by analyzing the two important documents and the ongoing debate about China's economic growth and development.

### **The Government Work Report**

Premier Li emphasized that under the apt leadership of Xi Jinping, the tasks and targets of the year 2015 have been fulfilled and "major achievements have been made in reform, opening up, and socialist modernization."<sup>2</sup> The report notes that China's GDP grew at an average annual rate of 6.9 percent in 2015 and for the first time, the proportion of service sector to GDP rose to 50.5 percent. It is noteworthy that the Chinese economy grew at its slowest pace in 2015 since 1990. Table 1 presents composition of GDP by sectors. The service sector has gradually increased its share in the country's GDP. The report also stresses that energy consumption per unit of GDP fell by 5.6 percent in 2015.

**Table 1: China's GDP Composition in Percentage, 2005-2015**

Sector	2005	2010	2015
Primary	11.7	9.6	9.0
Secondary	46.9	46.2	40.5
Tertiary	41.4	44.3	50.5

Source: Compiled by authors from National Bureau of Statistics of China.

The report suggests that China is in the process of bringing structural reforms to energise its economy, therefore China has moved forward with structural reform rather than adopting strong stimulus policies. Significantly, the report also took note of deep-seated domestic problems, which were "becoming prominent and downward pressure on the economy was mounting," to justify the slow rate of economic growth.<sup>3</sup>

By and large, the Chinese media highlighted that the recovery from world economic slowdown has been satisfactory for China and common people can expect benefits from the government's report.<sup>4</sup> Responding to the views regarding slowdown of Chinese economy by foreign media, Chinese media highlighted that China's growth is still at least twice that of developed countries despite the slowdown.<sup>5</sup> It also stressed that China realized the highest growth rate compared to other major economies of the world, excluding India.

China, for the first time, has fixed a GDP growth target in the range of 6.5-7 percent, rather than a definite target for 2016. This implies that the lowest expected growth will be 6.5 percent and the highest possible growth seven percent.<sup>6</sup> The report suggests that China is well aware of the sluggish world economy that presents challenges before the Chinese economy and it also expects difficulties due to structural reforms. Some China experts note that this is a report that “neither gives the public too high an expectation nor disappointment.”<sup>7</sup> Further, the report “elaborates on China’s strength, such as the potential to be unleashed through urbanization, the development of the service sector, the employment policy and the innovation plan.”<sup>8</sup>

It is projected that the government deficit for 2016 will be 2.18 trillion yuan, which is an increase of 560 billion yuan from last year. In other words, deficit-to-GDP ratio will rise to three percent. It is interesting to note that the burden of this deficit will also be shared by the local government which amounts to 780 billion yuan. The report emphasizes that China’s “deficit-GDP ratio and government debt ratio are lower than those of other major economies of the world.”<sup>9</sup>

The report also commented on the issue of regional development and noted that special focus was put on three Initiatives – namely the Belt and Road Initiative, the Beijing-Tianjin-Hebei integration initiative, and the Yangtze Economic Belt initiative. OBOR was highlighted as an important project to bring the fruits of China’s development to relatively undeveloped regions within China. The report also mentions that “policies and measures were introduced to promote the development of Tibet, Xinjiang and Tibetan ethnic areas in the provinces of Sichuan, Yunnan, Gansu, and Qinghai.”<sup>10</sup>

The focus on inclusive development and elimination of poverty are also noteworthy. Premier Li acknowledged that “the best form of governance is that which puts people’s wellbeing first... We must never lose sight of this and do more to improve the lives of our people and address their concerns.”<sup>11</sup> Premier Li highlighted his resolve to combat poverty and informed that the number of rural residents living in poverty was reduced by more than 100 million. He stressed that Central Government funds for poverty alleviation efforts will be increased by 43.4 percent. This is in line with President Xi Jinping’s statements regarding concerted efforts for the victory of decisive battle over poverty in China.<sup>12</sup>

### **The 13<sup>th</sup> Five Year Guideline, 2016-2020**

The 13<sup>th</sup> Five Year Guideline highlights innovation as the prime driver of economic development. It focuses on an innovation driven strategy to increase the contribution of

consumption to economic growth and efficiency of investment and enterprises. It announces the initiation of six key scientific and technological projects and nine other major projects under its 'Scientific Innovation 2030' initiative.

**Table 2: Major Initiatives under 'Scientific Innovation 2030'**

	Major Projects	Key Scientific-Technology Projects
1	Aircraft Engine and Gas turbine	Seed innovation
2	Deep Sea-Space Station	Clean and efficient utilization of coal
3	Quantum communication and quantum computer	Smart Grid
4	Mind Science and Mind Research	Space-Earth Integrated Information Network
5	National Cyber Space Security	Big Data
6	Deep Space Probe and In-Orbit Spacecraft Service Maintenance System	Artificial Intelligence and Robotics
7		New Materials: R&D and Applications
8		Beijing-Tianjin-Hebei Integrated Environmental Management
9		Health-care

Source: “新华社受权发布‘十三五’规划纲要 共分为20篇（全文）xinhua she shouquan fabu ‘shisan wu’ guihua gangyao gongfen wei 20 pian (quanwen),” 观察 guan cha, March 17, 2016.

As Table 2 illustrates, the government has targeted specific sectors including strategic emerging industries to encourage R&D and strengthen the scientific and technological innovation in the country. To achieve the objective, the government plans to spend 2.5 percent of the GDP on R&D. In 2015, the government spent 2.1 percent of its GDP on R&D. The spending on R&D might not be sufficient as the focus on innovation as the driver of growth is huge under the current leadership.

Further, the 13<sup>th</sup> Five Year Guideline emphasizes that ‘Made in China 2025’ will be implemented to strengthen fundamental capacity of the industry. The main tasks of ‘Made in China 2025’ are to improve innovation in manufacturing, integrate information technology and industry, and promote service-oriented manufacturing. The service sector is poised to play an important role in Chinese economy in the next five years. Chinese experts have argued that the ‘Made in China 2025’ 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.<sup>13</sup> Further, the Mass Entrepreneurship programme is aimed at popularizing entrepreneurship and supporting small and micro businesses in China. In line with the 13<sup>th</sup> Five Year Guideline, the State Council issued a circular on May 12, 2016 to promote the building of mass entrepreneurship and innovation demonstration bases. A total of 28 demonstration bases will be built in the first phase and are scheduled to be completed by 2018, which will help cultivate platforms to support mass entrepreneurship and innovation. The government will boost financial support and adopt preferential taxation policies, facilitate personnel mobility, and promote innovative resource sharing<sup>14</sup>.

Apart from innovation, the inclusion of concepts, such as green development, coordination and sharing in the 13<sup>th</sup> Five Year Guideline are aimed to achieve a sustainable and environment friendly growth in China. The focus on green development may help China as past economic practices have caused damage to environment and pollution in China. For China, it is important to adhere to the policy of resource conservation and environmental protection which has been the focus of the government in the last few years.

The guideline also aims to reform SOEs and ensure success in upgrading them and improving their performance. However, it is noteworthy that many experts treat SOEs as the biggest interest group in China. Hence, structural changes are very difficult to be made as far as SOEs are concerned.

The Guideline calls for promoting new-type of urbanization in China. 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. The Guideline highlights major components of new urbanisation policy in China.

**Table 3: Five components of New Urbanization in China**

1	Accelerate the process of granting urban residency to people with rural household
2	Shape the pattern of the urbanization
3	Build Harmonious and Livable City
4	Improve Housing Supply System
5	Promote coordinated development of urban and rural areas

Source: “新华社受权发布‘十三五’规划纲要 共分为20篇（全文）xinhua she shouquan fabu ‘shisan wu’ guihua gangyao gongfen wei 20 pian (quanwen), “观察 guan cha, March 17, 2016

The government plans to further relax provisions of *Hukou* system by granting urban residency to people with rural household. This is a step to solve programmes related to migration in China. The objective to promote coordinated development of urban and rural areas has also been highlighted. The coordinated development of various regions and sharing fruits of development with people by narrowing income inequality and eliminating poverty are other main objectives of the Guideline.

### **The Debate**

The prospect of Chinese growth and development has become an issue of debate worldwide, especially after the approval of the government work report and 13<sup>th</sup> Five Year Guideline by the NPC. Some experts including Gao Xiqing and Karen Harris argue that the 13<sup>th</sup> Five Year Guideline is an extension of theme that was set at the Third Plenary session of the 18<sup>th</sup> CPC Central Committee in November 2013 and there is hardly anything new in the five year guideline.<sup>15</sup> However, a study of the 13<sup>th</sup> Five Year Guideline suggests that although the idea of ‘deepening the reform’ was first mooted by the Third Plenum under President Xi Jinping, the 13<sup>th</sup> Five Year Guideline is a comprehensive document, which provides a clear roadmap for the development of China in the next five years. Further, the Guideline highlights the importance of policy initiatives, such as supply-side structural reform. In Chinese discourse, the concept of supply-side reform emerged only in 2015.

Different opinions have also been expressed on the growth target of 6.5 percent to 7 percent for 2016. Experts like Nobel Laureate Michael Spence maintain that this is a realistic target.<sup>16</sup> Others believe that the kind of structural reform suggested in 13<sup>th</sup> Five Year plan cannot be implemented easily and hence it might be very challenging to achieve a growth rate of 6.5-7 percent for the Chinese government.

In this context, the recent article in *People’s Daily* suggesting ‘L’ shaped growth rather than ‘U’ or ‘V’ for China extends the debate on the subject. Generally ‘L’ shape is referred to an era of recession followed by a slow and gradual recovery.<sup>17</sup> The newspaper cites an “authoritative insider” to shape the discourse in China. Some experts note that the “authoritative insider” could be Liu He or any of those who are close to President Xi Jinping.<sup>18</sup>

The recent intervention of the *People’s Daily* needs to be understood in a proper context. It may be noted that the Chinese language media has debated the issue of ‘L’ shape growth for

Chinese economy in recent years. In 2012, while debating ‘L’ shape growth for China, a study suggested that there could be three possibilities once China enters bottom of the ‘L’ shape growth. First, there could be smooth transition from relatively slow growth to medium and high growth. Second, there might be a sudden jump as it happened in South Korea and Japan. And, third, the transition might be fast initially, but it may crawl for a long period.<sup>19</sup>

In 2015, a shift in the growth process was noted as the beginning of ‘L’ shape growth by Ren Zeping, a noted economist in China. He hoped that a slow adjustment may continue for five to seven years.<sup>20</sup> Further, experts like Huang Yihua have noted that ‘L’ shape growth is a reality for China. He argues that the growth rate may not decline further as the government has initiated major projects, such as the Belt and Road initiative.<sup>21</sup>

Interestingly, it has also been argued that there is uncertainty and confusion about channels of economic policy-making in China. Currently, China has “two different sometimes overlapping system of policy-making”<sup>22</sup>. The talk about “authoritative insider” in *the People’s Daily* suggest that everything is not fine as far as economic policy-making in China is concerned. Further, it was noted that China’s leadership is trying to make a grand shift in the nation’s economic policies citing the “authoritative insider”<sup>23</sup>.

Moreover, it is evident that the government is aware of the economic challenges and it wants to debate the prospects of Chinese growth to probably draw some policy lessons. This is in line with the practices of the current leadership. It may be noted that the Chinese government invited suggestions from people around the globe to help the government finalize 13<sup>th</sup> Five Year Guideline.<sup>24</sup> The Communist Party of China has also invited suggestions from experts across the globe on different issues in the recent past.

It is pertinent to argue that the following factors would be critical as far as growth and development in China in the next five years are concerned: (i) Technology transfer from developed countries to boost productivity. China lags behind in terms of cutting-edge and core technologies. This has been emphasized by President Xi Jinping in the recent past. (ii) Mass entrepreneurship to popularize entrepreneurship and innovation to lower production costs. This will require greater financial support and ability to take risks. (iii) Supply side reforms to stabilize growth and improve competitiveness in China, however, reforming SOEs will be a challenge. (iv) People centred-urbanization to sustain growth and solve the rural problems. This might be



challenging as many people do not want to leave the land and move to urban centres. (v) Special policies for poor and disadvantaged sections of the society to achieve inclusive development as everything cannot be left to the market in developing countries including China.

India and China are large emerging economies with substantial rural population. Both countries are in the midst of rapid transformation with the development agenda taking the highest priority for the leadership of both countries. India has also initiated important projects such as 'Make in India', which has highlighted India as a potential manufacturing hub and the creation of top class infrastructure in the country. Other projects such as 'Skill India' and 'Start-up India' are aimed to provide skill training, and encourage and popularize entrepreneurship in India. Further, innovation has been highlighted as a means to raise productivity in India. China's 'Internet Plus' and India's 'Digital India' programme are aimed to integrate the Information Technology with traditional industries, primarily to fuel economic growth in their respective countries. Although India and China have followed different economic models in the past, it could be said that currently both countries are also pursuing similar policies to achieve economic growth and development.

Chinese President Xi Jinping has asked senior officials to “make innovation the pivot of development.”<sup>25</sup> The era of double digit growth is over and the government has initiated a host of policies to achieve the target of China's growth and development in the next five years. The challenges to achieve a sustainable and environment friendly growth are much evident. However, it is noteworthy that the government wishes to debate the critical issues on public domain to draw practical policy lessons, a practice which has been followed quite often under the leadership of President Xi Jinping.

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### **Endnotes:**

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<sup>1</sup> 权威人士谈当前中国经济 “China's economy likely to follow 'L-shaped' path in coming years, says an 'authoritative insider'”, May 9, 2016 available at <http://en.people.cn/n3/2016/0509/c98649-9055137.html>



<sup>2</sup> “Report on the Work of the Government”, Delivered at the Fourth Session of the 12th National People’s Congress of the People’s Republic of China on March 5, 2016, Li Keqiang Premier of the State Council, *Xinhua*, March 17, 2016.

[http://news.xinhuanet.com/english/china/2016-03/17/c\\_135198880.htm](http://news.xinhuanet.com/english/china/2016-03/17/c_135198880.htm)

<sup>3</sup> Ibid

<sup>4</sup> 2016年政府工作报告速览与点评, March 5, 2016,

[http://news.china.com/2016lh/news/11176754/20160305/21698620\\_all.html#page\\_1](http://news.china.com/2016lh/news/11176754/20160305/21698620_all.html#page_1)

<sup>5</sup> Ibid

<sup>6</sup> In other words, growth should not be lower than 6.5 percent and leave room for flexibility and higher target.

<sup>7</sup> Chen Weihua, “China scholar praises pragmatic government work report,” *China Daily*, March 9, 2016,

[http://www.chinadaily.com.cn/china/2016twosession/2016-03/09/content\\_23790511.htm](http://www.chinadaily.com.cn/china/2016twosession/2016-03/09/content_23790511.htm)

<sup>8</sup> Ibid

<sup>9</sup> The State Council, PRC “Full Text: Report on the Work of the Government (2016),”

[http://english.gov.cn/premier/news/2016/03/17/content\\_281475309417987.htm](http://english.gov.cn/premier/news/2016/03/17/content_281475309417987.htm)

<sup>10</sup> Ibid

<sup>11</sup> Ibid

<sup>12</sup> See for example, President Xi Jinping’s New Year Speech 2016, [www.china.org.cn](http://www.china.org.cn).

<sup>13</sup> “Made in China 2025’ plan unveiled,” available at [www.chinadaily.com.cn/bizchina/2015-05/19/content\\_20760528.htm](http://www.chinadaily.com.cn/bizchina/2015-05/19/content_20760528.htm), accessed on 5 November 2015.

<sup>14</sup> State Council, PRC, “China boosts building of mass entrepreneurship and innovation demonstration bases”, May 12, 2016, [http://english.gov.cn/policies/latest\\_releases/2016/05/12/content\\_281475347665454.htm](http://english.gov.cn/policies/latest_releases/2016/05/12/content_281475347665454.htm)

<sup>15</sup> “China: Impact of Thirteenth Five Year Plan,” available at, [www.cfr.org/economics/china-impact-thirteenth-five-year-plan/p37772](http://www.cfr.org/economics/china-impact-thirteenth-five-year-plan/p37772).

<sup>16</sup> Xinhua, “China can Achieve Growth Target through Innovation: Nobel Prize Winning Economist, available at [news.xinhuanet.com/english/2016-04/14/c\\_135278642.htm](http://news.xinhuanet.com/english/2016-04/14/c_135278642.htm)

<sup>17</sup> Some Experts refer to Japan in the 1990s as a classic example of an ‘L’ shaped recession recovery.

<sup>18</sup> “China heading for big economic policy shift, says mystery ‘authoritative’ source in People’s

Daily”<http://www.scmp.com/news/china/economy/article/1942575/china-heading-big-economic-policy-shift-says-mystery>

<sup>19</sup> “中国经济：经济L型 结构分化 zhongguo jingji: jingji L- xing jiegou fenhua,” *财富在线 caifu zai xian*, October 9, 2015, <http://stock.cncfzx.com/a/20151009/1901663.html> <http://stock.cncfzx.com/a/20151009/1901663.html>.

<sup>20</sup>任泽平 ren zeping,”中国经济：经济L型 结构分化 zhongguo jingji: jingji L- xing jiegou fenhua,” *东方财富网 dongfang caifu wang*, October 9, 2015, <http://stock.eastmoney.com/news/1406,20151009554107898.html>

<sup>21</sup> L型经济能否挡住“1时代”脚步 L xing jingji nengfou dangzhou ‘1 shidai’jiaobu,” *人民网 renmin wang*, November 14, 2012 <http://finance.people.com.cn/stock/n/2012/1114/c222942-19574346.html>.

<sup>22</sup> Barry Naughton, “Supply Side Structural Reform: Policy Makers look for a way out” available at [www.hoover.org/.../supply-side-structural-reform-policy-makers-look-w...](http://www.hoover.org/.../supply-side-structural-reform-policy-makers-look-w...)

<sup>23</sup> 权威人士谈当前中国经济 China’s economy likely to follow ‘L-shaped’ path in coming years, says an ‘authoritative insider” available at <http://en.people.cn/n3/2016/0509/c98649-9055137.html>

<sup>24</sup> For details, see, Dr Sanjeev Kumar and Dr Rajiv Ranjan, “China’s Upcoming Two Sessions: Analysing the Agenda”, available at [http://www.icwa.in/issue\\_briefs.html](http://www.icwa.in/issue_briefs.html).

<sup>25</sup> According to President Xi Jinping speech published in the *People’s Daily* on 10 May 2016