



The New Principal Contradiction in China: Significance and Possible Outcomes

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Introduction

In his work report presented to the 19th National Congress of the Communist Party of China (CPC), Xi Jinping proclaimed: “What we now face is the contradiction between unbalanced and inadequate development and the people’s ever-growing needs for a better life”. Xi also spoke of the historic shift that affects the whole landscape and that creates many new demands for the work of the Party and the country”. The reason why it is important to study this aspect of Xi’s work report is that it will have lasting impact on the country’s socio-economic outlook in the next couple of decades. Xi’s statement points in that direction when he said, “We must recognise that the evolution of the principal contradiction facing Chinese society represents a historic shift that affects the whole landscape and that creates many new demands for the work of the Party and the country”. This is a significant development as the concept of principal contradiction in China has been revised after 36 years.

Backdrop

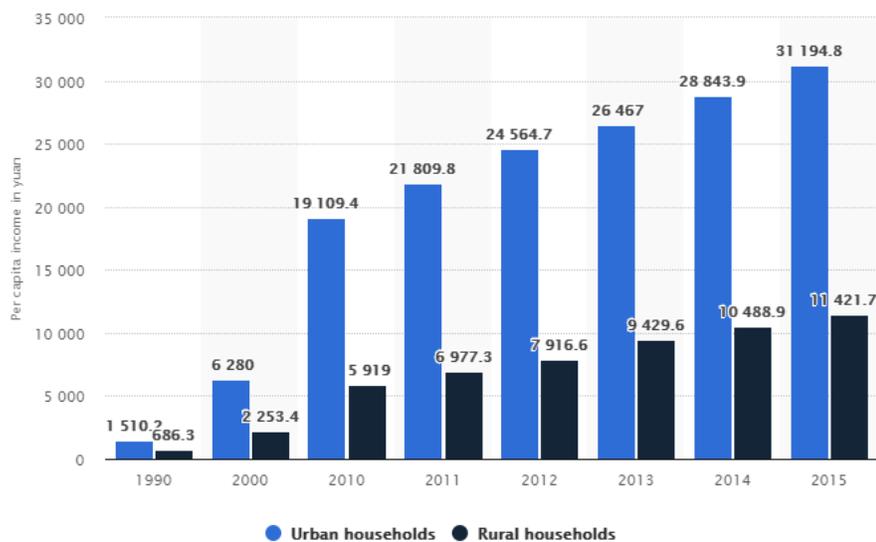
The last time a principal contradiction was set was in 1981 by Deng Xiaoping. It was then described as one between “the ever-growing material and cultural needs of the people and backward social production.” This principal contradiction followed the Deng dictum that “it doesn’t matter whether a cat is white or black, as long as it catches mice”. This essentially allowed the CPC to reconcile socialism with market economy and thus was born the phrase “Socialism with Chinese Characteristics”.

What necessitated Deng’s redefining of the principal contradiction in 1981 needs to be highlighted. China then had faced nearly 25 years of political and economic upheavals which had nearly stalled its economy. The Great Leap Forward, the Hundred Flowers Movement and the

Great Proletarian Cultural Revolution had brought in chaos and uncertainty, and subsequently caused a loss of direction as far as the party was concerned.

Deng realised that the political campaigns of the Mao years were not only meaningless but also counterproductive if the economy did not provide for the masses. That is why the party changed its relations with the masses and with the methods of production. It reconciled itself to providing material benefit to the people and set its course in the direction of advancing the “backward social production”. It began with agrarian reforms and changes in the household responsibility system.¹ The local production communes were dismantled and market forces were allowed a footing; and, the rest of the economic reforms followed. As was popularly said, China unleashed its productive forces from the previously controlled regime.

This course correction set by Deng first in 1981 and then cemented in 1992 with his famous southern tour has yielded rich benefits for China. For a major part of this 35-year period, China experienced double digit growth. In 1981, China’s Gross Domestic Product (GDP) was \$289 billion and in 2016 it had risen to \$11.2 trillion. China today is the world’s second largest economy and is projected to overtake the US within the 15 years. Its GDP per capita has risen in this period from \$308 in 1980 to \$8123 in 2016.² China is world’s largest trading country and the biggest trading partner with most of the world’s major economies. The table below shows average urban and rural income in China since 2015. It must, however, be noted that China’s per-capita income is still significantly below that of developed countries.



Annual per capita disposable income of rural and urban households in China from 1990 to 2015 (in Yuan)³

Challenges of unsustainable growth

However, this growth has come at a substantial price as well. In 2007 itself, even before the global economic meltdown, then Premier Wen Jiabao had warned that “the Chinese economy was quickly becoming unstable, unbalanced, uncoordinated, and unsustainable”. China faces major regional inequality with almost all of its growth centres being located in coastal China. Its various plans and western development strategies have not yielded adequate results even after nearly 15

years of implementation. A similar situation exists with reference to its income inequality. China is one of the most unequal countries today in terms of income. Its Gini Coefficient is one of the highest in the world at 0.47 in 2016.⁴ More importantly, China is facing a middle income trap today as income growths threaten to stagnate. In 2015 Liu Jiwei had predicted that China needed to grow by 6.5 percent annually for 5 years at least to avoid falling into the middle income trap. Lou had said, "Without reforms to remove obstacles hindering the free flow and allocation of land, labour and capital, China's economic growth miracle might end".⁵ Even though China managed to cross the figure of 6.5 percent in the last 2 years, it has come on the back of continued state impetus in sectors like infrastructure. It can also be seen that at the 19th party congress, Xi Jinping has created a duality between creating 'a moderately prosperous society' and 'socialist modernization' and in effect softened the goals to be achieved by 2020 and create another goal for 2035.

Ordinary Chinese nationals do not consume what they produce and China seeks to change that in its second goal of 2049 when it wishes to become an advanced socialist market economy. Hu Jintao as well as Xi Jinping have stressed upon the need to expand the country's social security net in order to encourage and broad base domestic consumption, which has not exactly been achieved as yet.

Corruption is seen as the existential challenge facing the party. This was highlighted in the work report to the 18th party congress by Hu Jintao, and Xi Jinping focussed on this issue on more than one occasion in his report to the 19th party congress. Judicial expansion, transparency and constitutionalism are the elements that have been highlighted by the leadership on various occasions in the past.

One of the major challenges is China's environmental pollution. This is a clear outcome of its economic strategies aimed at growth that allowed polluting factories and businesses to flourish. At the beginning of the process of reforms and opening up, the need to provide jobs and contribute to the economy was placed above the need for a clean environment. However, no one would have imagined that the problem would become as severe as it did after this long period.⁶ Air pollution today causes a significant number of premature deaths in China.⁷ Also, various studies reveal that life expectancy in northern China is five years lower than in southern China.⁸ China also sees many incidents of environmental protest and unrest which bear out Xi's statement that people's demands have changed. It is no surprise then that President Xi Jinping had said at the NPC of 2015 that "We are going to punish, with an iron hand, any violators who destroy ecology or environment, with no exceptions".⁹ In the last decade, the environmental bureaucracy has seen an immense expansion of capacity as well as financial independence from local level officials. With the new principal contradiction according major position to environmental issues, the powers of China's environmental bureaux are bound to rise even further.

Significance and Future Course of Action

This shift in the principal contradiction facing the party has the potential to place Xi as the leader who changed the orientation of country's growth strategy if it does indeed succeed in action. This is because this priority shift has the potential to determine the country's course of action for the

next couple of decades at least, by bringing in qualitative development and correcting the mistakes of the past couple of decades. It's not easy since there are vested interests but it has to be done if China wants to become an advanced economy.

Xi's statement on principal contradiction spells out the areas of priority by stating that "Not only have their material and cultural needs grown; their demands for democracy, rule of law, fairness and justice, security, and a better environment are increasing."¹⁰ These policies represent continuation of what the Chinese leaders have been saying for more than a decade now. Hu Jintao's Scientific Outlook to Development and harmonious society essentially spoke the same language. In his work report to the 18th Party Congress, Hu Jintao had said, "We must coordinate urban and rural development, development between regions, economic and social development, relations between man and nature, and domestic development and opening to the outside world."¹¹

Various Chinese commentators have reasoned why redefining the principal contradiction was necessary. One of the indicators is that the redefined concept of principal contradiction is closely linked with people's rights and would help expand the rule of law when implemented. Peng Dapeng argues,

"The public's demand for a better life is not only associated with a burgeoning awareness of civil rights but also closely correlates with the fulfilment and maintenance of civil rights. To satisfy the public's assertion of their lawful rights, such as environmental protection and food safety, is to meet their demands for a better life, and this also is the goal of social development."¹²

Peng adds that people's awareness of their rights has made decision-making more scrupulous and also a bit slower than before. However, he says that "in this way, the short-sighted economic growth model which seeks instant benefit and profit at the expense of the natural environment and social harmony will be abandoned."¹³ His idea that "a service-oriented government is directed by public demand, and its political priority is to respond to the demands from citizens" indicates the course of future actions.¹⁴

Yan Kun argues that adaptation of new principal contradiction reflects that the social production capacity has evolved significantly and is no more backward. She also adds the supply-side reform is the new developmental priority. Imbalance and inadequate reforms are major sources of weakness today. Thus, it has become crucial to ensure benefit and efficiency by achieving balanced development.¹⁵

One important outcome is that China has reconciled itself to the fact that it may not enjoy double digit growth rates and would rather hope to have what it calls qualitative growth. This has been the target of reforms since the 18th party congress. The other idea is to expand 'people-centric growth', something that has been highlighted by Xi Jinping for a couple of years now.¹⁶ China aims to expand its share in the value-added chain and move away gradually from being the factory of the world. It will continue to push for local level transparency and structural reforms of the state-owned enterprises and heavily debt-ridden municipal governments. Xi also envisages state-owned enterprises being transformed into innovative, strong, globally competitive enterprises.

Whether environmental accountability becomes one of the criteria for political promotions will also be an interesting policy to watch. The earlier era allowed for continuation of unsustainable practices as long as those generated revenue and jobs. The severity of China's environmental challenges and the need to urgently address those has been highlighted by President Xi in his work report. This issue has regularly featured in the annual work reports of the government to the National People's Congress.

The major policy implications of this strategy are likely to be seen by the time of the third plenum and fifth plenum which would decide the political and economic course ahead. Xi's first target is to eradicate poverty and create "a moderately prosperous society" by 2020 followed by bringing blue skies back to the country's heavily polluted cities, and achieve the dream of socialist modernisation by 2035. Speaking on these issues, Xi Jinping said in his report, "Building on continued efforts to sustain development, we must devote great energy to addressing development's imbalances and inadequacies, and push hard to improve the quality and effect of development. With this, we will be better placed to meet the ever-growing economic, political, cultural, social, and ecological needs of our people, and to promote well-rounded human development and all-round social progress".¹⁷ On poverty alleviation, Xi said, "We will intensify poverty alleviation, see that all our people have a greater sense of fulfilment as they contribute to and gain from development, and continue to promote well-rounded human development and common prosperity for everyone".¹⁸ This will be done by building on the foundation created by the moderately prosperous society with a further 15 years of hard work to see that socialist modernisation is basically realized.¹⁹ In the second stage, from 2035 to the middle of the 21st century, the CPC aims to developing "a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful."²⁰ The targets until 2035 include, becoming innovation driven society, expanding rule of law and protecting people's rights, expansion of soft power, a modern social governance system a fundamental improvement in environment quality and building a beautiful China. The upcoming plenums can be expected to pass rules, laws and regulations in these aspects.

This is not to say that all of the objectives stated by Xi will be implemented in a hurry. Many of his previous statements and policy pronouncements still face major hurdles within the country. For example, in 2013, in the third plenum of the 18th national congress, Xi had announced a policy of "comprehensive deepening of reform" in China's economy and to allow market forces to play a greater role in resource allocation and economic sustainability. This was later translated as structural reform policies. However, it appears that this has not been achieved. This was exactly his message at the National People's Congresses in 2016 and 2017. In 2017 in particular, he had told representatives from various provinces that they would have to reform in order to survive or they would perish, thereby indicating the slowness of progress as well as the sense of urgency that the highest leadership accorded to these reforms.

Summary

Thus, it will still take a long time for these priorities to become policies and for the policies to translate into action. However, this is a call for a new set of course corrections and therefore, need to be watched closely. The recently held three-day economic forum has decided to prioritise "innovative manufacturing, a more secure financial system, a more open and green economy,

more affordable housing and better life for the people” for the next three years.²¹ From the long-term point of view, it is important to ask whether China’s policy guidance towards domestic orientation changes its foreign policy and how. Whether China -- if and when less dependent on foreign consumers and technology suppliers – would be less restrained and more assertive as argued by many remains an important aspect worth observing.²² What that may mean for its neighbours with whom China has territorial disputes is also important to watch.

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Disclaimer: The views expressed are that of the Researcher and not of the Council.

Endnotes

¹ For a detailed discussion on early stages of economic reforms in China, see Gautam Jaggi *et al.* (1996), “China's Economic Reforms” Chronology and Statistics” Institute for International Economics Working Paper 96-5, at: <https://piie.com/sites/default/files/publications/wp/96-5.pdf> (accessed 8 November 2017).

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¹⁰ Xi Jinping (2017), “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era”, Report Delivered at the 19th National Congress of the Communist Party of China, October 18, 2017, at: http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf (accessed 4 November 2017).

¹¹ Hu Jintao (2012), “Full Text of the Work Report at 18th Party Congress”, 27 November, at: http://www.china-embassy.org/eng/zt/18th_CPC_National_Congress_Eng/t992917.htm (accessed 3 November 2017).

¹² Peng Dapeng, “Ensuring public’s right to enjoy balanced development”, *China Social Sciences Today*, 2 November 2017, at: <http://www.csstoday.com/Item/4964.aspx> (accessed 6 November 2017).

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Yan Kun (2017), “Principal contradiction facing Chinese society has evolved”, *Chinese Social Sciences Today*, 26 October 2017, at: <http://www.csstoday.com/Item/4946.aspx> (accessed 15 November 2017).

¹⁶ Xinhua (2016), “President Xi calls for “people-centric” reform”, 19 April 2016, at: http://news.xinhuanet.com/english/2016-04/19/c_135290796.htm (accessed 5 December 2017)

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