

BULLETIN

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The Path of Economic Development in China's 12th Five Year Guideline (2011-2015)

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During the fourth session of the 11th China National People's Congress (parliament) held in Beijing March 5-14, the 12th Five Year Guideline was approved. The relevance of this document is very high because it was prepared during the global economic crisis, which further revealed the necessity of changing the Chinese economic model. At the Congress, Prime Minister Wen Jiabao delivered a government work report in which he assessed the results of the implementation of the 11th Five Year Guideline (2006-2010), revealed the main goals of the next plan and presented arrangements for the government's work in 2011.

Assessment of the 11th Five Year Plan (2006-2010). China's five-year plans provide major guidelines for economic policy during the following years, and the delivery of the plan's objectives has crucial meaning for the legitimacy of Chinese leaders.

Traditionally, before passing the new five-year plan, the Prime Minister delivered a report to the National People's Congress about the implementation of the previous Five Year Plan. Wen Jiabao admitted this time that the last five years was an uneven period for China, mainly because of the global financial and economic crisis. But the crucial part of his speech was focused on China's mesmerizing achievements, including: China's GDP reached RMB 39.8 trillion, average annual economic growth was 11.2%, public finances increased from 3.16 trillion yuan to 8.31 trillion yuan, employment in urban areas increased by about 57 million people, the annual average growth of disposable income per capita in urban areas was 9.7% and in rural areas per capita net income was 8.9%. Moreover, Wen said that the international status of China rose when the PRC coped quite well with the crisis.

Wen Jiabao also listed the main problems for China: unbalanced development, the imbalance between investment and consumption, a big gap between income distribution, weakness in technological innovation, irrational industrial structure, imperfections of agricultural infrastructure and the uncoordinated development of urban and rural areas. The global financial crisis in fact aggravated those problems because government support through its anti-crisis policy focused especially on fiscal and monetary stimulation mostly directed to the investment and export sectors, not domestic consumption or social security. Hence, measures to rebalance China's economy and build a "harmonious society" seemed insufficient.

Main Provisions of the 12th Five Year Plan (2011-2015). In the new five-year plan, the government assumes the acceleration of a restructuring of the economy towards more sustainable and consumption-driven models based on the development and growth of higher value-added sectors with a special focus on more a balanced distribution in society of the benefits of China's economic successes. It contains five main requirements: transformation and adjustment of the economic structure, scientific and technological innovation, improvement of people's livelihoods, a resource-saving and environmentally friendly society and a strengthening of the policy of reform and openness. The plan lists the main quantitative and qualitative goals to be achieved by 2015, but without many details about what should be done to reach them.

The target for average annual GDP growth is 7%, slightly lower than the 7.5% figure adopted in the previous plan. The target for the 11th Five Year Plan was exceeded despite the repeated efforts

to stimulate domestic consumption. For the next term, the more probable situation is the continuation of the proven model based on huge investment projects (the plan contains a long list of infrastructure, transportation, industrial, energy and mining projects) while maintaining a meaningful position towards export-oriented manufacturing in the economy. Other targets include creating 45 million new jobs in urban areas, keeping the registered urban unemployment rate below 5%, stabilising the inflation rate and increasing by four percentage points the share of services in GDP. The plan also predicts an improvement of people's livelihoods through the achieve of targets such as increasing urban residents' disposable incomes and rural residents' net incomes per capita by about 7% annually, covering by pension schemes all rural residents and 357 million urban residents and increasing by three percentage points the join rate for basic medical insurance, both urban and rural.

The crucial fields for the future development of China are education and innovation. In education, many reforms were implemented in the previous plan, with the most significant change related to higher budgetary spending on education. The plan set a few important quantitative targets. Assuming that a nine-year compulsory education will embrace 93% of people of school age, high school gross enrolment rates should reach 87%. The qualitative goals of better and more affordable access to education and improved skills for graduates will serve national development needs. Among those needs, the top priority is the steady improvement in national innovation capability. In the field of innovation, China plans to increase expenditures on R&D to 2.2% of GDP and has set an ambitious goal of 3.3 patents per 10,000 people. Achieving those goals would mean that China would be a world superpower in innovation.

There are huge expectations related to China's plans in the field of energy and environment. Recently, China became the world's biggest emitter of CO₂, despite efforts during the last five years to reduce the energy-intensity of the GDP. For the next five years, the target is the reduction of energy consumption per unit of GDP by 16%. It also assumes that carbon dioxide emissions per unit of GDP will be cut by 17% as well as a reduction of emissions of other greenhouse gases. However, these cuts would only slow the rise in the country's absolute amount of emissions. The main measure to achieve these goals is the proportional increase of non-fossil fuels to 11.4% of the overall primary energy usage. Today, China is the world leader in building new energy capacity based on renewables. Implementation of the new plan also means further development of its potential in wind and solar technology, sectors in which China could be a more competitive supplier for the world market.

Conclusions. The new five-year plan could be perceived as an attempt to transform the PRC's economic and social development model. Fast and stable economic growth remains the goal, but a visible emphasis on social reforms, including mainly social insurances (medical, old-age insurance and cheap housing), is a sign that China's leaders are aware that it's high time to transform the economy from a heavy reliance on investment and export towards higher domestic consumption. To achieve this goal, the nation's sense of economic security must be improved.

At the same time there is a need to increase the efficiency of the economy, which will require skilled labour and innovation. This is particularly important on one hand for an aging Chinese society, which faces the problem of a smaller workforce and concerns about the shortcomings of its pension system. On the other hand, China is facing an influx of rural residents to urban areas. It is estimated that within the next 20 years 400 million people from rural areas will be settled in urban areas. This is the reason why creating more jobs in urban areas and cheap housing for poor people are being taken into account. Ambitious plans for environmental protection are also perceived as a step in improving the efficiency of China's economy.

The 12th Five Year Plan could also be seen as a kind of testament prepared by Chairman Hu Jintao and Prime Minister Wen Jiabao who will be replaced in 2012 and 2013 by the so-called fifth generation of Chinese leaders. One of the key expressions that is used in the new Five Year Guideline is "scientific development." It could be perceived as Hu Jintao's contribution to the theory of the so-called socialism with Chinese characteristics as was done by previous PRC leaders. The concept of scientific development is vague but generally refers to the so-called people-oriented policy. It means that the focus of Chinese leaders has shifted from purely economic growth to social issues. But in reality, they realize that sustaining fast economic growth for China now as well as in the near future depends on investment and export-oriented manufacturing. Changes in the mode of economic development will depend especially on the results in implementation of the plan in terms of innovation, energy and environment and increased social spending, which might lead to incremental changes in the structure of the Chinese economy.