The New Common Economic Program:  
China’s Eleventh Five Year Plan and What It Means

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The Chinese Communist Party’s new 11th Five Year Plan proposals are remarkable, both for what they contain, and for how they were created. The proposed Plan sets few quantitative targets and no specific industrial policies or programs. Instead, it presents a program of government action designed to ensure that rapid growth will be sustainable over the long term, and that the fruits of growth will be more equitably shared. The document was drawn up through a broadly consultative—but also tightly scripted—process. However, its recommendations are very broad and abstract, and in many cases specific policies needed to implement the recommendations do not exist. Both the Plan and the manner in which it was drafted are both highly characteristic of the Hu Jintao-Wen Jiabao administration. As such, the Plan should be seen as this administration’s economic program.

The 11th Five Year Plan—Purpose and Context

On October 11, 2005, the Fifth Plenum of the 16th Communist Party Central Committee passed the party’s “Suggestions” for the 11th Five Year Plan, covering the years 2006 through 2010. The fully elaborated Plan will be ratified as a government document next spring at the National People’s Congress. But the Central Committee’s adoption of the “Suggestions” is the decisive step marking the formal adoption of the economic program of the Hu Jintao-Wen Jiabao administration. Most of the provisions of the document were already familiar to attendees at the Plenum, since various drafts, provisions, and discussions of main points have been circulating through China since summer. Ratification of the Suggestions was a foregone conclusion. Nevertheless, the Suggestions mark an unprecedented attempt to synthesize a theoretical rationale for Chinese development strategy with practical policy recommendations.

The Plan which the Party presents for China’s approval represents a revolutionary shift in the way the country’s leaders think about its economic future: It takes the context of China’s high speed economic growth as a market economy for granted. The Plan does not attempt to direct China’s future economic growth. Instead, it acknowledges that the future will be shaped by “rapid growth, industrialization, urbanization, marketization, and an acceleration of internationalization,” in a context in which “economic globalization is becoming even more profound, technological progress is taking on even more diverse forms, and the movement of factors of production and
relocation of sectors is accelerating."¹ It doesn’t name any priority sectors for China to develop, but instead assumes that those sectors will be developed by the same forces that drive development in any market economy—supply and demand, changing tastes, greed, and productivity shocks among other influences. The document sets only two quantifiable targets: gross domestic product (GDP) per capita in 2010 should be double that of 2000; and energy consumption per unit of GDP in 2010 should be about 20% lower than it was at the end of the 10th Five Year Plan (i.e., 2005). Both of these goals are important, but are certainly not enough to steer the growth of an economy. Indeed, although this document is listed as the eleventh in a sequence of Five Year Plans going back to 1953, it is not actually called a “plan” (jihua), but rather a long-range plan (guihua), or program.

Since it is accepted that China’s economic growth is predominantly market-driven, this Plan implicitly asks what the focus of government development policy should now be. Given that government policies inevitably affect the development trajectory, in which directions should the Chinese government be deflecting market-determined growth? In examining this question, the Plan refers repeatedly to the need to adopt a scientific view of the development process (kexue fazhan guan), that is, to adopt a worldview that can be more appropriately rendered as a “scientific developmentalist viewpoint.” This term, now a staple in the Chinese press, evolved from the slogans adopted by the 2003 Third Plenum, which called for “putting people first (yiren weiben), and establishing a comprehensive, coordinated and sustainable view of development.”² The term encapsulates the entire Hu-Wen development policy, and implies a broad, human capabilities-based perspective on growth. The “scientific developmentalist viewpoint” is especially closely associated with Wen Jiabao, who gave a long and prominent speech explicating its significance on February 21, 2004.³ Moreover, as described below, Premier Wen’s keypoint speech to the October Plenum justifies the Plan by linking it to the scientific developmentalist viewpoint.

This viewpoint leads planners to ask two key questions: “What should government do to insure that long-term economic growth is sustainable?” and “What should government do to help insure that the fruits of growth are spread broadly, in order to create a ‘harmonious society’?” The answers that the Plan provides are clear-headed, and indeed are fundamentally accurate. In fact, they reflect the best of current world thinking about what the process of development entails. Because, make no mistake, this is all about development. Nothing in this document is intended to slow down development, when that term is properly understood. The first of six “must dos” in the Plan is that China must “sustain high-speed stable development.” Premier Wen Jiabao in his discussion of the plan, actually says, “the key to resolving all of our problems is development.”⁴ But development is not identical to GDP growth: development requires the strengthening of human resources, putting people first (yiren weiben), and diversifying capabilities; and development must be sustainable, consistent with the long-run carrying capacity of the natural environment and human society. Indeed, it turns out that all the things that the Chinese government must do to “soften” the headlong rush to economic growth are precisely those things that will make development sustainable in the long run. It is this general orientation that leads to the specific emphases in the Plan document.
Energy is at the top of the agenda. But energy is discussed in the context of environmentalism, recycling, and sustainability. Of nearly equal importance are Urban-rural relations, and the creation of a “new socialist countryside.” Their mention leads into a discussion of income distribution under the rubric of the “harmonious society.” Finally comes a section on reform and opening, which, although last in order of precedence, contains surprisingly strong recommendations now being written into the Plan. We begin by examining the process that created the Plan. This process is strongly characteristic of the style of both Hu Jintao and Wen Jiabao. Quite clearly, the Plan should be seen as the general economic program for the entire Hu-Wen administration.

A Tightly Scripted Consultative Process

This year’s Fifth Plenum, like the preceding ones under the Hu Jintao leadership, was tightly scripted, and focused on a single topic. The Third Plenum had been devoted to the economic and institutional reform agenda; the Fourth Plenum had been devoted to the role of the Communist Party as a governing party; and this Plenum was devoted to the 11th Five Year Plan. Given their tight focus, and the government’s iron grip on the microphone, outside observers cannot draw much information about contemporary Chinese politics from these meetings. (By contrast, the 1978 “Third Plenum” that began the economic reform process is famous for having spiraled out of control. Such loss of control doesn’t happen any more in Hu Jintao’s China.)

The Plenum was the crux of a controlled consultation process that itself is the essence of the Hu-Wen model of governance. The government made a major effort to spread the network of consultation widely, and discussions at various levels have been ongoing for at least six months. Wen Jiabao mentions that opinions were solicited from everybody imaginable, including Party Elders (think Zhu Rongji) and national heads of the Commerce and Industry Associations (the regime’s favorite capitalists). Today, a 37-member “Expert’s Commission” has been established to participate in the final stage of the 11th Plan drafting process. Co-chaired by Gan Ziyu (former executive vice-head of the Planning Commission) and Wu Jinglian, the vastly influential and independent pro-market economist, the Commission is to discuss and critique the Plan, and prepare a written report for the spring NPC meeting. The membership list includes specialists within the government think tank bureaucracy you would expect to see on such a list; but also a number of the best independent economists in Beijing, known to be outspoken and persuasive. For instance, the list includes Lin Yifu, of Peking University Center for Chinese Economic Research; Fan Gang, of the China Reform Foundation; Cai Fang, of CASS’s Population and Labor Economics Research Institute; and Hu Angang, of Qinghua University’s National Economic Conditions Research Center. People like this combine economic skills with public influence, and are the right experts to include in such an organization. This commission can be seen as Wen Jiabao’s response to complaints that he has kept the economic consultation process too in-house, and has ended up being unduly influenced by economists within the bureaucracy.
We can also see the outcome of consultative processes in the principal themes of the Plan. All reflect ideas that have been prominent in recent public discourse, especially among economists. Most of the urgent ideas under discussion by the public receive some recognition in the document. Concerns are acknowledged and, in some cases, balanced against other concerns. In that sense, the idea that the Communist Party consults broadly with “the masses” and then summarizes their views, seems to have worked reasonably well in this case. A sort of social consensus has been articulated, and perhaps even advanced, by this Plan. It should be borne in mind that the national process is just one of many simultaneous planning exercises going on in every province and city of China. One of the purposes of the Plan Suggestions is to guide these local processes. Local planners are to adhere to the “scientific developmentalist viewpoint.” Past planning processes have rather obviously put “things” first, but today’s process should put people first; current planning shouldn’t be designed to get everybody following the same strategy, or pursuing the same targets; instead, different regions and different sectors face different problems and need different work programs, The details for each region should be worked out by specialists. These are elements of the guidance the center is currently sending to local planners. What then are the common concerns that emerge out of this consultative process?

Energy

Energy is a central concern of the plan. Of course, fears over energy supplies are now reverberating throughout the world. Wen Jiabao mentions the sustained high price of oil as one factors causing heightened uncertainty in an otherwise relatively favorable global environment. But Chinese planners have an even more important reason to pay attention to energy. They have begun to repair their energy statistics, which collapsed during the late 1990s. When Zhu Rongji told small coal mines to shut down in 1997 local governments responded by reporting that their small coal mines had indeed stopped producing while continuing to permit mining. The result was a massive falsification of data. When translated into national statistics, those figures indicated that because coal production dropped by 29%, total energy production declined by 19% between 1996 and 2000. Meanwhile, GDP officially grew by 36%. These numbers, of course, are preposterous. Official data over the past five years now show a dramatic increase in national coal output (18% per year from 2000-04) and total energy production (15% per year). These numbers are equally preposterous, and mainly reflect a return to reasonably accurate reporting. In fact, reported 2004 coal output is consistent with 4.3% annual growth from 1996, a slight acceleration from the 4.1% annual growth from 1989-96. Nevertheless, both sets of implausible numbers have been cited as though they were meaningful: the 1996-2000 numbers have been used to show that China was curtailing energy and greenhouse gas emissions, while the 2000-04 numbers were used to argue that China has been wasting ever more energy and natural resources. One has to ask: Are Chinese policymakers victims of their own inaccurate statistics? At minimum, they are uncertain of what the data say: note that the Plan calls for a 20% reduction in energy per unit of GDP produced from the 2005 level, which is not yet known! But whatever the 2005 numbers turn out to be, they will be considerably more reliable than the 2000
numbers. At this point, we do not know whether or not Chinese energy efficiency has deteriorated during the past few years, and Chinese planners probably don’t know either.

Regardless of the specific problem with Chinese energy statistics, the combination of very high world oil prices, a booming economy, and the nation’s increasing dependence on imported oil inevitably makes energy planning a central issue for China. In fact, a significant restructuring of the policy planning organs for energy took place in June 2005 with the creation of a National Energy Leading Group (NELG) within the State Council. The NELG is chaired by Premier Wen Jiabao, with vice-premiers Huang Ju and Zeng Peiyan serving as vice-chairs. Under the NELG a new National Energy Office was established to support the leading group, with Zhang Xiaoqiang as Secretary-General. Oddly, although the new Office is housed in the NDRC, and under the nominal leadership of NDRC Chairman Ma Kai, it is separate from the existing State Energy Administration within the NDRC. Moreover, it has a higher bureaucratic rank, since it has vice-ministerial status. Thus, the creation of the NELG is clearly designed not only to give higher priority to strategic energy planning, but also to give the process more bureaucratic independence. Shortly after the creation of NELG, the State Council issued a strong document on the implementation of compulsory energy standards and monitoring. This strong emphasis on conservation has continued through the present.

Concerns about energy security have been fully absorbed into an environmentalist worldview in the 11th Plan. China must create an economy that economizes on resources, a “cycling economy” and an “environment-friendly society.” Local officials are being instructed on the merits of the five R’s: rethink, reduce, re-use, recycle, and repair. The Plan contains a strong call for environmental protection: it is the first time that the national government has been so strongly committed to the environment. The Plan advocates more aggressive enforcement of pollution laws, a stronger mechanism to eliminate egregious polluters, more investment in water quality and pollution control, and more investment in natural areas. It advocates the collection of a fuel tax, improvements in the design and collection of natural resource taxes, and imposing further taxes on material-using sectors. Commentary associated with the Plan targets the automobile as a large energy and petroleum-user, and links the fuel tax to the need to restrain the growth of automobiles. This may reflect a gradual departure from the whole-hearted endorsement of automobiles that, until recently, was so characteristic of government policy.

Still, all of this support for the environment will do little if specific policies sacrifice environmental considerations to short-term economic growth. The GDP growth target lives on in the Plan: indeed, as Wen Jiabao points out, the target of doubling per capita GDP by 2010 is actually a modest increase over the previous target for 2010, which was simply to double 2000 GDP overall. But given China’s superheated growth, this new target actually represents a slowing of the growth rate from about 8.6% per year from 2000-05, to about 7.4% per year. Don’t count on it actually happening, however! This is not a real target, but rather a signal to local officials not to push too hard for economic growth because it can be so wasteful and damaging to the environment. Even more intriguing is the extensive commentary associated with the administrative and tax
reform sections of the Plan, explaining why local officials falsify GDP reporting figures. Xiao Jincheng specifically links the fiscal reforms mentioned in the Plan with the need to replace the existing system of indicators used to evaluate local officials’ performance (ganbu kaoping jizhi). “The new system of performance indicators will no longer merely reward total GDP and GDP growth rates, but will instead stress social and environmental indicators.”\textsuperscript{16} Such a change would be a necessary first step to make China’s policies more environmentally friendly.

Rural Society and Urban-Rural Divisions

Much the press coverage given of the Plenum and the Five Year Plan has focused on the creation of a “harmonious society,” a concept closely associated with Hu Jintao. While that is a perfectly acceptable way to summarize the intentions of the Plan, the “harmonious society” is in fact less prominently featured than the “scientific developmentalist viewpoint” and the need to create a sustainable development trajectory, ideas more closely associated with Wen Jiabao. However, these two approaches converge in the sections of the Plan devoted to rural society, the urban-rural divide, and employment. The section on the rural economy—incongruously titled “build a socialist new countryside”—is in fact one of the strongest sections of the Plan. Rural policies are to focus on “extracting less, putting more back in, and enlivening.” Concretely, these mean more investment in rural infrastructure and agricultural technology; continued reductions in the tax burden on the countryside; improving rural public services, in particular spreading nine-year compulsory education; and a revitalized cooperative health system. The need to protect farmers’ land rights makes two important appearances. First, farmers must be protected against the unfair expropriation of their land for development schemes supported by local officials (who, it is left unsaid, may be getting rich off them). Second, the right of farmers to transfer use-rights to their lands must be ensured. This latter is designed to allow farmers greater freedom in selling or leasing their land in order to leave agriculture altogether.

All of these measures contribute to the same bottom line: raising rural household incomes. Although the Plan does not explicitly say so, this is because the urban-rural income gap has widened greatly in China since 1985, and is in turn the largest single source of increasing societal inequality. The Plan pays a great deal of attention to urban-rural relations. It makes clear that rural-to-urban migration is to be encouraged by the state. This means not only reducing barriers and providing information services to potential migrants, but also guaranteeing social services and legitimate rights to migrants after they arrive in cities. The Plan explicitly calls for “earnestly resolving the problem of social security for migrants who come into the city to work” (Para. 34).

Urban-rural relations are a recurrent theme in the Plan. In recent years, official policy has \textit{de facto} been to encourage rapid urbanization. On September 29, 2005, in the most recent (25th) collective Politburo study session, renowned urban geographer Zhou Yixing, from Peking University, was invited to lecture the Politburo. He promptly said that China’s urbanization growth was overstated, and that the government was making a
mistake to indiscriminately promote urbanization. Once urbanization began to be used as an indicator of local government success—those success indicators again!—it produced distortions of development patterns. Instead, Zhou argued, each locality should look to the areas in which it has comparative advantage, and facilitate the development of a system of small, medium and large cities growing up in response to opportunity.17 This anecdote reveals the importance and changing role of urbanization policy within China’s overall development policy. It has been tempting for the government to see rapid urbanization as a quick fix for China’s income distribution problems, since impoverished farmers would be able to move to the city and find new jobs. However, as Zhou points out, is the situation is not so simple.

In a persuasive and influential article, Lin Yifu of Peking University, drew links between development strategy, inequality, and employment creation.18 The only way to improve income distribution over the long term, he asserts, is to foster the development of labor-intensive sectors. Lin points out that China’s great comparative advantage lies precisely in its abundant endowment of labor. Policies that exploit China’s comparative labor advantage, and foster competitive, low-cost firms, also intensively use labor. Increasing the demand for labor, in turn, increases the price of the one resource that poor people have: their own labor. When their labor is worth more, inequality will go down. This kind of thinking has found its way into the Plan itself. The pressures of population and employment will continue to be extreme throughout this Plan period. Employment creation is a priority. Policies “putting people first” and fostering technological creativity and autonomous technical change are part of the same “scientific developmentalism” approach. Indeed, Section 30 of the Plan declares that “Accelerating the development of education is the basic path to converting the enormous pressure of population in our country into the comparative advantage of abundant human resources.” For an official document, that’s a pretty good line. It articulates many critical concepts in one sentence, and, more importantly, it’s right.

System Reform

The section on System Reform is not given great prominence: it is the fifth major thematic section covered. However, it contains a surprising number of important, specific proposals. Arguably the most prominent are the wide-ranging and inclusive recommendations for reforming the governmental system. The Plan advances broad principles: government should get out of microeconomic management altogether, reduce and simplify administrative approvals, and eliminate layers of bureaucracy. Provinces that are ready can eliminate the administrative level between province and county. Fiscal and tax reforms are mentioned, although it is clear that specific implementing measures have not yet been prepared. New types of taxes are named, such as the fuel tax, as well as overhauls of many existing taxes, including the personal income tax, the value-added tax, and natural resource taxes. All of these overhauls are designed to eliminate fiscally-imposed barriers to market integration, and to tilt the system towards fairer income distribution. Clearly some interesting governmental reforms are brewing, but it is difficult to say which stage they have reached, for the Plan speaks only of general principles.
The Plan is also quite forthcoming about opening new sectors to Chinese private capital. It explicitly says that state-controlled monopoly sectors—meaning natural resources, utilities and telecom—will be opened to investment and ownership diversification. In the financial arena, permission is to be gradually extended to small and medium-sized financial institutions of different ownership types. (In plain language, this means some private banks will be allowed, on an experimental basis, in Zhejiang and Jiangsu.) Finally, the Plan calls for steps toward capital account convertibility within the Plan period. Each of these measures has the potential to significantly affect the operation of the Chinese system. A list of important items on the reform agenda has been given legitimacy by the Plan document.

Conclusion

The preceding description covers some of the main themes of the 11th Five Year Plan, but there are many other general and specific points that there simply hasn’t been space to mention. Because the Plan reflects a broad consultative process, it contains lots of good ideas. However, the Plan’s biggest shortcoming is that it is not always clear which proposals will be implemented. At no point does the Plan lay out a clear link between the ideals and objectives, or indicate what concrete policy steps will be taken to implement those ideals. The planners purposely avoided putting forward a few dominant strategies or slogans because they did not want to encourage local governments to aggressively emulate central priorities and duplicate efforts. But for precisely that reason, the various strategies and concepts in the Plan have a rather slippery relationship to each other. Certainly they are all inter-related, and can be derived from a broad “scientific developmentalist worldview.” Still, it is not 100 percent clear which of the approaches and analyses in the document is most important. Finally, because the document was created via a broad consultative approach, many organizations lobbied to get a sentence or two reflecting their specific interests included so they could later point to this important imprimatur. These proposals may turn out to have little practical significance. (For example, the Plan says that the digital television, third generation telephone, and the next-generation Internet will be unified and subject to a single regulator. As if it were that simple!)

The Plan makes several attempts to knit all these points together, but never quite succeeds. For example, there are six “principles” that later, in Wen Jiabao’s explication, become six “must-dos.” There is a single paragraph that contains a rather diverse set of targets, making up what is ultimately little more than a wish list. Following the targets, there are seven thematic, multi-paragraph sections, and this is where most of the action is in the Plan: the new countryside; sectoral optimization and upgrading; regional development policy; energy-saving and environmentally-friendly growth; system reform; science and technology and human resource investment; and the harmonious society. A long section at the very end on “getting unified with the Party and implementing the 11th Plan together” brings in all of the political items that are on the Party’s current agenda. Whether this is an eighth theme, or simply a summation dealing with implementation under Communist Party leadership, is not entirely clear. Thus, the biggest shortcoming,
by far, of this Plan is simply the unresolved question of whether it really will be translated into concrete action. In the end, how much does it matter? The words are good, and one can only hope that the policies that follow will be equally positive.

The most important and concluding observation, though, has to be that the words are in fact very good. There emerges from this Plan document a rich and comprehensive vision of a sustainable development process in China, and a glimpse of the kind of governmental role that would be required by this development process. The vision is of a society that is more creative, more focused on human resource development, and treads with a lighter and more environmentally benign step. The Chinese government cannot realize that vision alone, but it can adopt a development strategy that nudges the Chinese economy along the prescribed path. To do so, the government will have to support market opening and integration; foster employment creation; and encourage broad-based economic growth. It must diversify energy sources, foster conservation measures, and save energy. In short, it must find a way to make the many good things that the Plan advocates a reality.

Notes

1 Sections 1 and 2 of the “Suggestions.” Chinese Communist Party Central Committee, “Zhonggong zhongyang guanyu zhiding guomin jingji he shehui fazhan dishiyige wunian guihua de jianyi” (CP Center Suggestions on Setting the 11th Five Year Plan for National Economic and Social Development), October 11, 2005, accessed from Xinhuawang, October 18, report.
4 Wen Jiabao, “Guanyu zhiding guomin jingji he shehui fazhan dishiyige wunian guihua jianyi de shoming” (Explanation of the Suggestions on Setting the 11th Five Year Plan for National Economic and Social Development), October 8, 2005, accessed from Xinhuawang, October 19, report.
6 Zhu Zhipei, “按照科学发展观的要求做好十一五专项规划编制工作 “Correspond to the demands of the scientific developmentalist viewpoint; do the work of putting together the 11th Five Year Plan Well,” in State Council Information Center, Shizhang Juece Yaocan (Critical Decision-making Information for Mayors), No. 3, August 18, 2005, pp. 1-2.
7 Yang Weimin, “转变规划编制理念,理顺规划间的关系” (Shift the guiding thought of plan compilation; align the relationships among the planning processes), in State Council Information Center, Shizhang Juece Yaocan (Critical Decision-making Information for Mayors), No. 3, August 18, 2005, pp. 3-5.

11 The focus of the November 23, 2005 meeting of the State Council was on environmental surveillance, monitoring, and incentive systems. See http://news.china.com.cn/chinanet/china.cgi?docid=61462627,46690302&server=192.168.3.196&port=3000

12 Wu Jisong, “Xunhuan jingji de xin guifan he xin guannian” (The new guidelines and new concepts involved in the “cycling” economy), in State Council Information Center, Shizhang Juece Yaocan, “Critical Decision-making Information for Mayors,” No. 2, August 11, 2005, pp. 5-6. That issue also features a long article by Ma Kai, head of the State Development and Reform Commission, entitled “Zhongguo jianshe jieyue shehui de zhanlue cuoshi” (The strategic measures China must take to create an economizing society), ibid., pp. 2-5.

13 In the fiscal paragraph (no. 24), not in the environment paragraphs (nos. 18-20).


15 Yu Jingbo, “‘Shiyiwu’ zhongguo jingji wentuo dingdiao; liucu nuanchong tanxing kongjian” (China’s economy to be appropriately adjusted in the 11th Five Year Plan; Leaving sufficient space for the unforeseen), Zhongxinshe, October 20, 2005, at www.chinanews.com.cn//news/2005/2005-10-20/8/640620.shtml. Despite the title of this piece, it includes two pieces of reporting: Ma Kai’s comments on regional planning, and Xiao Jincheng’s comments on fiscal and indicator reforms. See also Yu Jingbo, previous note.

16 Guo Wei, “Shiyi guihua: Sida jingjichu duole ChengYu, Shaole Zhusanjiang” (11th Plan: Four big economic regions will now include Chengdu-Chongqing, but will drop the Pearl River Delta), Caijing Shibao, October 8, 2005, at gov.people.com.cn/GB/46728/53739/53743/3749067.html. Despite the title of this piece, it includes two pieces of reporting: Ma Kai’s comments on regional planning, and Xiao Jincheng’s comments on fiscal and indicator reforms. See also Yu Jingbo, previous note.

