



## China's New Development Strategy Emphasizing Domestic Consumption, Human Resources and R&D

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In another demonstration of their firm grip, President Hu Jintao and Premier Wen Jiabao recently launched an entirely new development path. The Five Year Plan (2011-2015) together with this year's 'Report on the Work of the Government' and report of the National Development and Reform Council (NDRC), outline China's new economic and development strategy. If it succeeds, then by 2015, China will be on a qualitatively higher plane than most other countries.

### I CHINESE ECONOMIC MODEL: AN ANALYSIS

In 2005, Hu Jintao and Wen Jiabao had successfully formulated and effected a major policy shift away from Deng Xiaoping's philosophy of 'allowing some to get rich first' to that of 'common prosperity'. Their new policy saw a marked rise in the popularity of the Chinese Communist Party (CCP) among the masses. This has been particularly noticeable among rural residents.

Hu Jintao and Wen Jiabao have, in another bold move, this time discarded the economic model followed by China for the past three decades. They have sought to anticipate the requirements of the current decade and ensure China a place on the emerging economic high table. Programmes are being initiated across China to boost domestic consumption and upgrade human resource skills with a pronounced emphasis on science and technology, while at the same time trying to balance this effort with the compulsions of retaining the CCP's popularity and support among the masses.

The main features of the new policy orientation are: converting China from being the 'world's

manufacturer' to becoming the 'world's consumer'; upgrading its scientific and technological capabilities with an emphasis on innovation; expanding educational coverage; and, improving the living conditions and increasing the wages of the people, especially those in the rural areas.

The 10-day Fourth Plenary Session of China's National People's Congress (NPC), which convened in Beijing in March 2011, approved plans for a change in the country's economic orientation. The reports presented for approval include 'Report on the Work of the Government', 'Report on the Implementation of the Central and Local Budgets for 2010 and on the Draft Central and Local Budgets for 2011', and 'Report on the Implementation of the 2010 Plan for National Economic and Social Development and on the 2011 Draft Plan for National Economic and Social Development', prepared by the National Development and Reform Council (NDRC). The CCP's Central Committee's (CC) Politburo had earlier deliberated on each of these reports for six months.

### II WHAT IS THE AGENDA?: AN UNDERSTANDING

The above reports presented at the NPC plenum, including the 'Report on the Work of the Government', which Wen Jiabao took two hours to read, signal that China will switch to a development path which gives greater emphasis to: scientific and technological innovation; upgrading of peoples' skills and education; boosting domestic consumption; and expansion of social insurance and health benefits to the majority of people in the rural and urban areas. Wen Jiabao particularly appreciated the "major

breakthroughs" in "cutting-edge science and technology such as the manned space mission, the lunar exploration programme and supercomputers".

The economic development path now outlined by these reports moves China away from the export and investment-led model to one that is driven by Chinese consumers. The Twelfth Five Year Plan (2011-2015) envisages three major shifts. The manufacturing model that has promoted exports and investment-led growth is now to be replaced by a labour-intensive services model. This will include wholesale and retail trade, domestic transport and supply-chain logistics, health care, leisure and hospitality. This is expected to boost job creation as well as give the benefit of cleaner and greener growth.

Second feature will be enhancement of wages especially of those in the rural sector, which are planned to increase annually at 7 per cent in real terms. Wages in the rural sector are currently 30 per cent less than those in urban areas. The plan is to introduce reforms and tax policies that will increase rural purchasing power, broaden rural land ownership, and use technology to raise agricultural production. The reports insist that shrinkage of cultivable land will not be allowed and foodgrain production will not only be maintained at 500 million tons but enhanced by 50 million tons. In an attempt to address the problems of the 15-20 million people who migrate from rural to urban areas it was felt there will be need to revise the 'hukou' system, which restricts movement of people away from their birth-place.

Third aspect is intended to promote domestic consumption by accelerating building of the social safety net to reduce fear-driven high savings. This includes policies and subsidies to encourage rural residents to purchase domestic appliances and goods. Social security, pensions, medical and unemployment insurance schemes are to be expanded substantially, with basic pension insurance and medical insurance systems expected to cover the entire population by the end of the Plan period. These measures, it is anticipated, will lessen the impact of continuation

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of the 'one-child' policy. Last year basic medical insurance covered 432.06 million urban residents, an increase of 30.59 per cent over last year, and 835 million rural residents or 96.3 per cent of the population. The government has also decided not to allow the Consumer Price Index (CPI) to rise above 4 per cent and will ensure availability of grain and essential food items in rural and urban areas. The increase in CPI from this year's 3.1 per cent has been attributed to international market pressures.

The upgradation of science and technology and scientific innovation is being given special attention. Provision has been made for a 12.5 per cent increase in the budget allocated for science and technology in 2011 raising it to 194.41 billion Yuan. Of this 25.719 billion Yuan has been earmarked as funds for basic research, increased investment in the State Natural Sciences Fund, key national laboratories and basic research institutes, and programmes for independent R&D on major scientific equipment. 99.063 billion Yuan has been set aside for research in cutting edge technology.

Education will play a major role in this effort to transform China's economic profile from being a mere manufacturer to an innovator and producer of high-technology goods for export. Accordingly in 2011, spending on education is planned to reach 4 per cent of GDP and gross enrolment ratio in secondary education is expected to reach 84 per cent. Plans call for increasing enrolment in the current year to 6.75 million undergraduate students and 560,000 graduate students (against the 6.618 million undergraduate and 538,000 graduate students in 2010) in regular institutions of higher learning.

Other measures including appropriate amendment of China's taxation, fiscal and insurance policies will be implemented to facilitate Chinese companies to 'go global'. China will continue to 'guide' foreign investments towards high-end manufacturing, high-tech industries, modern service industries, new energy and environmental protection industries.

As if to affirm this emphasis on science and technology, a Xinhua dispatch in mid-March publicized a report of the Chinese Academy of Science and Technology for Development (CASTED), which ranked China twenty first among the world's forty most innovative countries. China ranked first in terms of number of research personnel and export of high-tech products, fourth in total R&D investment and third in the number of authorized patents.

## 12TH FIVE YEAR PLAN: HIGHLIGHTS

The highlights of the Twelfth Five Year Plan are: population will be controlled below 1.39 billion, or natural growth rate will be kept under 6.5 percent; the economic growth rate is targeted to be 7 per cent and GDP should exceed 55 trillion Yuan (RMB), up from the 39.8 trillion Yuan in 2010; rate of urbanization will be 51.5 per cent; value added output of emerging strategic industries will account for 8 per cent of GDP; coastal regions will transform from being the “world’s factory” to the hub of R&D, high-end manufacturing and service sector; spending on R&D will rise to 2.2 per cent of GDP; foreign investment will be welcomed in agriculture, high-tech and environment protection industries and nuclear power will be developed more efficiently with preconditions of ensuring safety; “construction of large scale hydropower plants will gain momentum in south west China”; the country’s optical cables will extend to 10.95 million kms and the number of internet access ports will rise to 223 million, an increase of 1 million and 35 million respectively; length of high speed railway will increase by 13,000 kms to reach 45,000 kms with total length touching 99,000 kms; length of highway network will reach 83,000 kms; China will open six new airports to air traffic, including a new airport being built at Beijing, bringing the total to 181; and China will build 36 million affordable apartments for low-income people. Premier Wen Jiabao spoke specifically of expanding use of the RMB in cross-border trade and investment and making it convertible under capital accounts.

The emphasis on innovation, science and technology and space research will impact on China’s defence preparedness. As China’s GDP grows to an estimated 55 trillion Yuan by 2015, there will be consequential double-digit hikes in the defence budget. China will step up acquisition of hi-tech weaponry and hardware, which will have attendant implications. China’s enhanced ability to develop hi-tech weaponry and Space weapons will be backed by steadily increasing financial support and an enhanced reservoir of trained human resources. These factors along with intensified training in joint integrated operations and increased emphasis on informatisation to prepare the PLA to fight and win local wars, will need to be factored in by India and China’s neighbours

The CCP’s sensitivity to issues concerning the people was noticeable in the recent NPC session which discussed issues of concern to ordinary people, including high prices of apartments and distress this causes to younger citizens. The

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government, therefore, decided to build large numbers of low-cost houses and at least 10 million low cost apartments in Beijing.

Problems of the ordinary Chinese individual and particularly of those in the rural areas have been the focus of the Party leadership. Premier Wen Jiabao’s blunt warning at the NPC that rising prices, gap between the rich and poor, and corruption could ‘even hit the government’s control of power’ encapsulated the underlying sentiment of the leadership visible in all the reports that were presented. This was symbolized at the NPC session in March 2011, with the presence of three Deputies representing the over 200 million migrant workers in China. The Chinese Communist Party (CCP) leadership has already taken major initiatives to ameliorate the living and working conditions of rural migrant workers by extending those greater benefits including payment of wage arrears, access to health and social insurance. The NPC session was assured by the Premier that cases of rural residents eligible to settle in cities would be taken up gradually.

A major step in this direction is the socio-economic experiment with far-reaching implications, which the Party leadership approved and which has quietly been underway since 2003. The pilot reform project was initiated in a municipality of Chengdu, capital of China’s south-western province of Sichuan. It was made public within days of the conclusion of the NPC session. It would have helped that the Party Secretary of Sichuan, 1953-born Liu Qibao, is reputed to be a close associate of President Hu Jintao and aspirant for a post in the Politburo to be constituted in 2012. The experiment has been praised by renowned Chinese economist Li Yining and Nobel laureate Mundell.

A lengthy Xinhua dispatch, describing these pilot reforms, said the Party Central Committee had identified developing agriculture, raising farmer income and developing the rural economy as the most important element of Party work. This includes facilitating the free movement of labour between urban and rural areas. Other noteworthy

features of this reform programme are: granting farmers 'the right to contract land on a legal, voluntary and paid basis'. This innovative policy is said to have generated funds for the village community and farmers individually thereby raising their standard of living. It has facilitated living in a 'centralised manner' in relative comfort with all modern amenities. It has also converted the farmer's land and house into assets which he can parlay into capital.

To do this, the programme implemented a 'rural ownership system' in which the villagers receive 'ownership certificates' confirming their rights to land and houses with the assistance of the Party branch of the village. The authorities plan that urban and rural residents will be permitted free migration starting 2012. Farmers will be allowed to work and live in cities without losing their land holdings and houses. This pilot reform project is to now be extended to a number of other counties.

Economic changes that have occurred in China over the past thirty years were reflected in the NPC. At least 70 NPC Deputies accounting for almost US\$ 70 billion in wealth were among the private businessmen and entrepreneurs represented at the NPC and Chinese People's Political Consultative Conference (CPPCC) sessions. They would have received some comfort when the NDRC report reiterated that "non-public sector" (an euphemism for the private sector) would be encouraged and government will create "an institutional environment for economic entities under all ownership forms to use factors of production on an equal basis in accordance with the law, compete as equals in the market and be equally protected by the law".

Wang Wenbao, Vice Chairman of the All-China Federation of Industry and Commerce, in the CPPCC urged 'earnest implementation' of the central government's policies to encourage and support development of private business. He recalled that by the end of 2010, China had 42 million private and self-employed businesses and that China's private sector created more than 75 per cent of the jobs, 60 per cent of the GDP and 50 per cent of the total tax revenues.

#### IV CONCLUSIONS

These economic plans have far-reaching implications. A major change will be in the communist philosophy that has guided communist

China's progress in the past six decades. Dilution of purist communist ideology moved forward with the acceptance of private business as part of the economic landscape and its being further legitimized by membership of the CCP. The suggestion now is to place these private businesses on an equal footing with the State-owned Enterprises (SoEs). Further dilution of purist communist principles has also been effected with the reform initiative in Chengdu where 'ownership' certificates are being granted to farmers, rural and urban residents for their house and land.

The emphasis on R&D and science and technology, if successful, will launch China on to a higher, more advanced level in innovation, manufacturing and defence. China's indigenous GPS system the Beidou is expected to be operational by 2025 and Beijing has recently unveiled ambitious, capital-intensive plans to use Space Stations to harness solar energy by 2050.

Finally, China's trading partners, including countries like South Korea, European nations and the US, will be keenly watching implementation of China's new economic plans in the expectation that increased domestic consumption will facilitate export of goods by them. China has, in the meantime, accelerated 'internationalization' of the RMB (Yuan). Efforts are underway to allow cross-border direct investment in RMB this month September and, once implemented, the rules will expand channels for overseas-acquired RMB funds to flow back into the country thereby giving a push to the RMB's internationalization drive. Foreign investors will then be permitted to make direct investments in China with RMB legally obtained overseas. This will also reduce Beijing's dependence on the US Dollar because of its huge holdings of US debt.

Though there are no indications of a serious threat to the CCP's position, nevertheless, vulnerabilities with the potential to derail China's ambitious developmental strategy exist. These include the potent mix of: rising unfulfilled popular aspirations, growing restiveness of the ethnic minorities who mainly reside in China's vulnerable border regions, and increasing anger at the rapaciousness of Party and Government cadres and neglect of environmental issues. China's leadership has so far successfully tackled these issues, but their task is now more complicated with the rapidly growing usage of internet and mobile telephones.