

A Note on China's 12th Five-Year Plan: Content and Implications

KJELD ERIK BRØDSGAARD

At the annual meeting of the National People's Congress (NPC) in March 2011, a new five-year plan was approved by the legislators. This is the 12th five-year plan in the history of the People's Republic of China (PRC). The first five-year plan was introduced in 1953. Only during the Great Leap Forward (1958-1960) was the planning process suspended and substituted by campaign economics.

Chinese five-year plans serve as a framework for overall planning and development. Although recent five-year plans carry few specific targets, they are important as expressions and indications of where the Chinese leadership would like to take China. They are the result of immense planning work involving thousands of planners, Party leaders as well as think-tanks and academics. In the process, extensive resources are mobilized by the National Development Reform Commission (NDRC) and other planning institutions and the Party's politbureau regularly discusses the various drafts that emerge from the planning process.

Work for the 12th Five-Year Plan started already in the second half of 2008 on the basis of a review of the achievements of the 11th Five-Year Plan (2006-2011). The review concluded that the 11th Five-Year Plan had achieved its growth targets, but that economic restructuring was proceeding slowly. Following the evaluation of the previous plan, the NDRC identified 20 policy areas and organized thousands of experts, scholars and entrepreneurs to hold meetings and write reports to develop new ideas for the 12th Five-Year Plan. The process focused on developing objectives and goals for the direction of social and economic development (Hu 2011).

Based on this research, the NDRC worked out an overall plan for the 12th Five-Year Plan with a focus on changing the economic development model. The concept was discussed at a subsequent politbureau meeting in February 2010. At the same time, the politbureau appointed the politbureau standing committee member and executive vice premier Li Keqiang to head a drafting group, which was entrusted with the task of drafting a proposal that could be presented to the Party's 5th Plenary Session in October 2010.

The State Council research office and the NDRC were primarily responsible for drafting the plan, but other government departments were involved, as well as staff of the NPC. There were also consultations with a broad range of stakeholders at the central level and in the provinces. The result was a draft document presented to the 5th Plenum of the 17th Central Committee in October 2010. The plenum approved the proposal, which subsequently entered a new phase of consultative drafting. At the National Development and Reform Conference in December 2010, the draft plan was further revised. The State Council also designated 37 economic, scientific, enterprise and other types of experts to be part of a national experts committee, which reviewed the draft plan before it was submitted to the NPC for final approval.

All this shows that it is a long and complicated process to work out a five-year plan. All major institutions and organizations have to be consulted before a final agreement can be reached. It is also important to draw on the expertise and knowledge to be found in the university system and in government think-tanks.

The resulting plan is a 65,000-character document divided into 16 parts and 62 chapters (Zhonghua Renmin Gongheguo 2011).¹

Main Targets

The main targets are divided into two categories: expected (*yuqixing*) and binding (*yueshuxing*) targets. Expected targets are to be achieved mainly through discretionary behaviour of market players, whereas binding targets are assigned to relevant departments and provinces, autonomous regions and municipalities directly under the central government. One group of targets consists of the economic indicators. They include an expected annual growth rate of 7 per cent. This is considerably lower than the average growth rate during the reform period and indicates that the Chinese government no longer upholds an 8 per cent growth rate as the golden number. During the 30 years of reform, the average growth rate has in fact been close to 10 per cent. The growth rate has dropped below 8 per cent only in 1979-1981 at the outset of the reform period, in 1989-1990 in the wake of the Tiananmen crisis, and in 1998-1999 during the Asian financial crisis (Guojia tongji ju 2009). In 2011 it was 10.3 per cent (National Bureau of Statistics of China 2011). Currently the Chinese leaders are trying to put the brakes on the Chinese economy to slow down economic growth. The reason for this appears to be high inflation. A growth rate of 7 per cent is expected to generate 9 million new urban

jobs a year, which should keep the urban unemployment rate well below 5 per cent. As a result of continued economic growth, urban per capita disposable income will increase from 19,109 yuan to 26,810 yuan and rural per capita income will increase from 5,919 to 8,310 yuan.

A second set of indicators relates to science and education. These include a binding target of consolidating the nine-year compulsory education and an expected increase in the gross enrolment rate of high school education from 82.5 to 87 per cent. Moreover, it is expected that the ratio of research and development (R&D) expenditure to GDP will increase to 2.2 per cent. Such a share of R&D expenditure to GDP compares favourably with the amount set aside for research and development in the EU and indicates a significant upgrading of the technological and educational level in China.

A third set of indicators deal with energy and environment. Eight out of nine of these indicators are binding, showing the great importance the Chinese government attaches to environmental protection. Farmland reserves will be maintained at 121 million hectares. Water consumption per unit of value-added industrial output will be cut by 30 per cent and the water efficiency coefficient in agricultural irrigation will increase to 0.53. Non-fossil fuel resources will rise to 11.4 per cent of primary energy consumption. Energy consumption per unit of GDP will decrease 16 per cent and CO² emissions per unit of GDP will decrease by 17 per cent.

Finally, there is a fourth set of targets, which pertain to 'people's well-being'. Almost half of these are binding. As mentioned, there will be 45 million new jobs by 2015. This will make it possible to keep the registered urban unemployment rate below 5 per cent. The binding target for total population is under 1.39 billion by 2015 and life expectancy is to increase one year, from 74 to 75 years. The new rural social pension insurance will reach total coverage and the participants in the urban pension system will increase by 100 million, to reach 357 million people. Another binding target is to increase by 3 per cent the participation rate in the basic medical insurance system for urban residents and in the new rural cooperative medical care system. Finally, 36 million housing units for low-income households will be constructed.

Shifting Development Priorities

The overall impression is that the Chinese leadership intends to shift its development priorities from a unilateral focus on economic growth to a strategy characterized by green development and a higher focus

on the 'people's well-being' or social welfare. Already the 11th Five-Year Plan rejected physical growth of GDP as the sole basis on which to assess the success of development (Brødsgaard 2005). Instead, a new development strategy was introduced based on a new concept of 'taking people as the foundation' (*yi ren wei ben*). Taking people as the foundation would strengthen another key concept, the 'scientific development concept' (*kexue fazhan guan*). The new 12th Five-Year Plan is an even clearer expression of these overall priorities for governance and social and economic change in China.

Parts II-IV of the plan deal with the development of the main sectors of the economy: agriculture, industry and the service sector. The 11th Five-Year Plan launched 'building a new socialist countryside' as the major slogan for development in agriculture. The new plan continues to stress that it is time to improve conditions in the countryside. Methods to achieve this include boosting technological innovation in agriculture, improving social service systems for agriculture, increasing wage incomes, improving the agricultural subsidy system, strengthening rural infrastructure construction and raising the management level in village and township planning. Of particular importance are efforts to reduce land acquisitions and increasing land compensation standards. Local authorities often expropriate land from farmers to establish development zones and attract industrial or housing projects. In many instances, this is done illegally and without sufficient compensation for the farmers, often causing violent disputes. An added problem, seen from the perspective of the government in Beijing, is that the availability of land has dropped significantly in recent years and the average per capita availability of farmland already has dropped below the UN Food and Agriculture Organization's warning line (0.05 ha) (Brødsgaard 2005). Therefore, additional land acquisition should be kept under strict control.

In relation to industry, the plan stresses the importance of manufacturing. Key fields include equipment, manufacturing, shipbuilding, automobiles, iron and steel, non-ferrous metals, building materials, petrochemicals, light industry and textiles. Most of these industries are within the heavy-industrial sector. They are extremely energy demanding and are also among the worst sources of pollution. Therefore, it is necessary to develop new strategic industries. The plan mentions seven of these new strategic industries that China should develop further: energy conservation and environmental protection industries, new generation IT industry, biological industry, high-end equipment manufacturing industry, new energy industry, new material industry, new energy

TABLE 1: Major Development Targets, 2011-2016

Target	2010	2015	Change over five years	Expected or Binding	
<i>Economic development</i>					
GDP (trillion yuan)	39.8	55.8	7% yearly	expected	
Value-added contribution of service sector to GDP	43%	47%	4pp	expected	
Urbanization rate	47.5%	51.5%	4pp	expected	
<i>Science and Education</i>					
Consolidation rate of nine-year compulsory education	89.7%	93%	3.3pp	binding	
Gross enrolment rate of high school education	82.5%	87%	4.5pp	expected	
R&D expenditure to GDP	1.8%	2.2%	0.4pp	expected	
Patents per 10,000 people	1.7	3.3	1.6	expected	
<i>Energy and Environment</i>					
Farmland reserves (billion mu)	1.818	1.818	0	binding	
Decrease in water consumption per unit of value-added industrial output			30%	binding	
Increase of water efficiency coefficient in agricultural irrigation	0.5	0.53	0.03	expected	
Increase of non-fossil fuel usage in primary energy consumption	8.3%	11.4%	3.1pp	binding	
Decrease in energy consumption per unit of GDP			16%	binding	
Decrease in CO ² emissions per unit of GDP (%)			17%	binding	
Total decrease in emissions of major pollutants	Chemical Oxygen Demand (COD)		8%	binding	
	Sulphur Dioxide (SO ²)		8%		
	Ammonia Nitrogen		10%		
	Nitrous Oxides		10%		
Forest increase	Forest coverage rate (%)	20.36%	21.66%	1.3%	binding
	Forest stock (billion m ³)	13.7	14.3	6	
<i>People's well-being</i>					
Urban per capita disposable income (yuan)	19,109	26,810	>7%	expected	
Rural per capita net income (yuan)	5,919	8,310	>7%	expected	
Registered urban unemployment rate	4.1%	<5%		expected	
New urban jobs			45 million	expected	
Urban participants in basic pension insurance (hundred million)	2.57	3.57	1	binding	
Participation in the basic medical insurance system for working and non-working urban residents and the new rural cooperative medical care system			3%	binding	
Low-income housing			36 million	binding	
Overall population (billion)	1.341	<1.39	<0.72%	binding	
Life expectancy			1 year	expected	

automobile industry. To develop these new strategic industries, special funds should be set up and the government should expand its start-up investment in rising industries. The government realizes that China's dominant role as the manufacturing centre of the world has entered a new stage where it is necessary to develop new industries in order to maintain China's competitiveness on the global-level playing field.

The Chinese transportation system is included in the plan's section on industry. Seven priorities within traffic construction are singled out. They include railways, highways, coastal ports, inland water transport, civil aviation and integrated traffic hubs. Over the last 20 years, China has been engaged in a huge push to construct a modern transport system. Success in this area is an important aspect in China's economic development. Compared to India and other emerging economies, China is way ahead (Bardhan 2010). According to the new five-year plan, the Chinese government does not intend to rest on its laurels. On the contrary, the plan outlines extremely ambitious goals. For example, during the next five years China plans to complete an express railway network with an operating mileage of 45,000 kilometers, a national expressway network with an available mileage of 83,000 kilometers, a number of major ports along the coast, and nine new airports in Beijing, Guangzhou, Nanjing, Changsha, Haikou, Harbin, Nanning, Lanzhou and Yinchuan. Recently, however, plans to accelerate the establishment of a high-speed railway network suffered a serious setback when two high-speed trains collided in Zhejiang. Moreover, the minister for the powerful Ministry of Railways was recently fired for corruption.

Compared to India, the Chinese service industry is still small, accounting for only 43 per cent of GDP (Bardhan 2010: 41). The target is to expand the share of GDP to 47 per cent. Measures include expanding financial services, the modern logistics industry, high-tech services, business services, etc. Tourism will also be developed further. Hainan Island will be singled out as a special international tourist area.

Part V stresses the importance of coordinated regional development and so-called sound urban development. The coastal areas will still spearhead the economic growth process, but more focus should be allocated to central and eastern regions. In fact, it is mentioned that the 'go west strategy' (*xibu da kaifa*), started in 2000 (Goodman 2004), should receive renewed attention. Importantly, new policies are indicated in relation to the shift of population from the countryside to the urban areas. Since the great migration of surplus farmers to the cities began 20 years ago, there has been a debate concerning the migrant workers' lack of basic

rights to schooling, medical insurance, retirement funds, etc. Here the plan announces new policies by stating that for migrant workers who do not fulfil the conditions for being registered in towns temporarily, public services to them should be improved and their rights should be strengthened. Children of migrant workers should enjoy equal rights to compulsory education. The plan even goes one step further by stipulating that migrant workers who have established stable labour relations with enterprises should be included in the basic retirement insurance and the medical insurance of township workers. For migrant workers the new conditions entail significant improvements and may signal that the strict *hukou* system is about to be changed, so that one of the most important obstacles to integrating town and countryside may disappear.

Green Development

Part VI focuses on green development and energy conservation and shows that the Chinese government no longer prioritizes economic growth over sustainable development. China is a major polluter of the environment and the rapid economic growth process has severely strained national and global energy resources. China has now superseded the US as the number one country in the world in terms of CO² emissions. According to the World Bank, 29 out of the 30 most polluted cities in the world are Chinese. There are two major problems. The first is that the Chinese industry and Chinese households are heavily reliant on fossil fuel (coal), which accounts for the main part of CO² emissions. Second, there is a huge waste of resources, as water, fuel, etc. are not used efficiently. The Chinese government has now decided to act and not wait for new international climate agreements to be made. Therefore, a number of binding measures will be introduced, such as increasing the use of non-fossil fuel in primary energy consumption to 11.4 per cent and decreasing energy consumption per unit of GDP by 16 per cent before 2015. The Chinese government will also increasingly rely on energy from windmills, hydro-electric plants and nuclear power plants. There will also be a renewed focus on developing new forms of energy generation such as photovoltaic panels, where China is already a world leader. The new emphasis on green technology and green development is one of the most remarkable aspects of the 12th Five-Year Plan.

Income Disparities

Part VIII also touches on a burning issue in China, namely the widening income gaps in society. With a Gini coefficient of 0.46, China is rapidly becoming one of the most unequal societies in Asia. There are huge income disparities between eastern and western provinces, between city and countryside and between different social groups. There are now several hundred thousand millionaires in China and 271 dollar billionaires in China according to Hurun Research Institute (*China Daily*, 5 September 2011). In recent years, income disparities have also emerged within the state sector. Workers in major state-owned enterprises earn on average 56,000 RMB, but top management earn 15-20 times as much. A recent survey showed that some CEOs earn as much as 9 million RMB. Among A-share companies there are 232 CEOs who earned more than 1 million RMB in 2010 (Forbes China 2011). These income disparities in a sector where salaries in the past did not differ much have caused widespread discussion. The plan indicates that the government will try to prevent income disparities from further widening and that it will establish a rational wage system and regulate the income and benefits of senior managers in state-owned enterprises and financial institutions.

As part of the efforts to improve the 'people's well-being' and prevent social inequality from widening, the plan stipulates that 9 million new jobs on average each year will be created in urban areas. In addition, 8 million rural labourers will be transferred annually to the cities. The signing of labour contracts by enterprises will be increased and reach 90 per cent and collective employment contracts will reach 80 per cent.

Traditionally civil servants and employees in public service organizations (PSUs) have enjoyed similar salary and pension schemes. However, recently the government has taken steps to 'reform' the pension arrangements for PSU employees (Brødsgaard & Chen Gang 2011). For some, their pensions will be marketized, that is, they will enjoy pension and social security schemes similar to those of employees in state-owned enterprises. These steps have met with considerable opposition among PSU employees, as they fear they will have their pension and social security entitlements reduced. The new five-year plan indicates that these attempts to reform the public sector will continue and that in the future only civil servants will enjoy fixed pensions, social insurance and health care. The result will be a more stratified public sector, where civil servants stand to gain, whereas other groups will lose their 'iron bowl'.

SOE Reform and Industrial Policies

Part XI envisages a deepening of the ongoing reform of state-owned enterprises. Large SOEs that have the requisite qualifications shall achieve overall listing on the stock exchange. Large SOEs that are not able to be listed should diversify their equities and carry out corporate system reform. Government administrative reform should also be promoted. Government intervention in microeconomic activities should be avoided. Government structures and the civil service system should be optimized on a continuous basis. The 2008 reform, which saw the creation of a number of super-ministries, should continue and a system whereby provinces directly govern counties (thereby bypassing the prefectures) should be explored.

Part XII indicates that in addition to stimulating exports, China intends to nurture new advantages based on technology, branding, quality and service. The goal is to promote the transition from processing trade to R&D, design, manufacturing of key components and logistics, etc. This is yet another example of the Chinese leadership's determination to change the position of Chinese companies in global production chains. China will use industrial policies to pick a number of national champions that will be nurtured to make them able to compete at the profitable end of the production chain and hopefully make them able to establish their own brands. The Chinese government will strive to improve and facilitate overseas investment possibilities for Chinese companies and try to minimize different kinds of risks. Interestingly, the plan also stipulates that enterprises 'going out' and their overseas cooperation projects should bear corporate social responsibility in mind in order 'to bring benefits to the local people'.

Finally, the plan carries a section on the supervision and assessment of the goals and tasks outlined. Annual goals will be set towards meeting the major objectives and there will be annual reports to monitor and analyze the implementation of the plan, especially the fulfilment of binding indicators. The State Council will organize a comprehensive mid-term review during implementation and submit a mid-term evaluation report to the Standing Committee of the NPC. Although not stated, the politbureau of the CPC will undoubtedly also monitor the implementation and progress of the plan.

The 11th Five-Year Plan achieved its development goals. The planned annual growth 2006-2010 was 7.5 per cent, but China actually achieved a growth rate of 11.2 per cent. In terms of per capita growth, the actual

average annual growth rate was 10.6 compared to the planned 6.6 per cent. There is no reason to doubt that the 12th Five-Year Plan will be able to achieve the more modest growth rate of 7 per cent. The real interesting question is whether it will be possible to re-orient the development strategy towards a more green development path. Until now, attempts to fundamentally change the basic priorities away from an investment-driven and heavy-industrial-oriented economy have foundered due to heavily fortified vested interests. These interests are rooted in an 'iron triangle' of Party cadres-state officials-CEOs of large companies. The Party-state relies on this triangle for its long-term survival and it is difficult to imagine how the iron triangle may open up space for fundamentally new policies where the large heavy-industrial and often extremely polluting SOEs are no longer prioritized.

Conclusions

Even though the Chinese economy has experienced fundamental reform allowing for increased scope of market forces to the extent that foreign analysts talk about Red Capitalism (Walter & Howie 2011), China's development path is still strongly influenced by the planning priorities embodied in regular five-year plans. They are the result of immense planning work involving thousands of planners, academics and Party leaders at all levels of society. This was also the case in connection with drafting the most recent Chinese five-year plan, the 12th Five-Year Plan, which was approved at the 4th Session of the National People's Congress on 14 March 2011.

The new five-year plan contains a number of important targets. Some are so-called expected targets, others are binding. Among the latter most of the indicators relating to energy and environment are to be found, illustrating the shift towards a more green and sustainable development path that was initiated by the 11th Five-Year Plan (2006-2010). There are also a number of binding targets relating to 'people's well-being' showing that part of a new more sustainable strategy will be to construct a social welfare system in China. It is also noteworthy that the overall growth target has been reduced to an expected average annual growth rate of 7 per cent, which is considerably lower than the average growth rate of 11.2 per cent achieved during the 11th Five-Year Plan.

However, there are vested interests in China in the heavy-industrial sectors of the economy and in the planning bodies of the Party-state, which in the past have prevented the adoption of a more balanced

and sustainable development path. Whether this will happen this time around remains to be seen.

NOTES

- 1 The European Union has translated the main part of the 12th Five-Year Plan into English. See http://cbi.typepad.com/china_direct/2011/05/chinas-twelfth-five-new-plan-the-full-english-version.html.

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