

To Achieve the Goals of China's 11th Five-Year Plan through Reforms

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This paper only reflects the viewpoints of the author, not of the DRC.

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1. Introduction

- **Difference between the 11th FYP and the before** ——
- *Firstly*, no longer instruction, but more like a blueprint.
From “*Ji Hua*”(计划) to “*Gui Hua*”(规划).
- *Secondly*, most of targets of the 11th five-year plan are supposed to be executed by market forces rather than by the government like before.
- *Thirdly*, it is actually impossible for the government to implement the five-year plan like before.

How Can the Goals of 11th FYP be Self-enforced ——

- Firstly, the goals of the 11th FYP must be in line with the results of the interactions of market forces.
- Secondly, the market economic system must be fully functioning, which requires reforms.

2 The Major Goals of the 11th FYP

- Beside to high economic growth and macroeconomic stability, the key economic targets of the 11th FYP include — —
- **Target 1:** Shifting to an efficient growth model.
- **Target 2:** Upgrading and optimizing the industrial structure.
- **Target 3:** Boosting the rural economy through the so-called new village campaign.
- **Target 4:** Increasing the efficiency of resources allocation.
- **Target 5:** Achieving balanced spatial development.
- **Target 6:** Improving public services.

Two Types of Target Indicators

Type I: Expected Indicators: suggested to be achieved. 14 out of 22

Type II: Compulsory Indicators: *have to* be achieved. Focus on public affairs. 8 out of 22. See the details below.

How many E and C?

	E	C
I. Economic growth:	2(<u>E</u>)	0(<u>C</u>)
II. Economic structure:	4(<u>E</u>)	0(<u>C</u>)
III. Population, resources & environment:	2(<u>E</u>)	6(<u>C</u>)
IV. Public service & people's life:	6(<u>E</u>)	2(<u>C</u>)

2.2 Why Set the Targets?

- **Target 1: Shifting to an Efficient Growth Model**
- **(i) Saving Rate & Investment Rate(around 40%)**
- – – Not only much higher than its developed counterparts, but also higher than some developing countries(see Figures 1-4).
- **(ii) Incremental Capital-Output Ratio(ICOR)**
- – – Much higher than that of the rapid growth period of Japan, Korea, and Taiwan(Kwan,2004).

Target 2: Optimizing the Industrial Structure

- China's unreasonable industrial structure is characterized by ——
 - —The repeated low level investments
 - —Low competitiveness of SOEs
 - —Overcapacities in various industries, and etc.
- **Overcapacity(see Table 3)** ——
Iron & Steel , Coal & Mine , Power , Aluminium, Cement,
Ferroalloy, carbonic-chemistry, copper smeltery, calcium carbide,
texture ,automobile

Target 3: Boosting the Rural Economy

The first stage: before the reforms in 1978.

—Gap increased because of price scissors, and planned system.

The second stage: from 1978 till around 1990.

—Gap decreased because of the household responsibility reform(HRR) in 1978.

The third stage: from 1990 to present.

—Gap increases in general, because the hidden problems related to land & labor migration have emerged after the potentiality of HRR released.

Target 4: Increasing Resources Allocation Efficiency and Build a Conserving Society

- Low economic efficiency + Rapid growth



- Great energy demand
- Imports of crude coal, crude oil, and refined oil increased by 51.0%, 15.6%, and 16.1% respectively in the first half of 2006.
- Energy Intensity (EI): much higher than its developed counterparts in terms of nominal exchange (Table 4).

Target 5: Balancing the Spatial Development

- **Spatial Unbalance** (Feng & Xuan, 2006)——

—— **GDP growth rates** of the four regions(i.e. East 10 provinces; Middle 6 provinces; West 12 province; North-east 3 provinces) are converging since 2004.

—— Nonetheless, the **spatial gap of GDP** continues to enlarge (see Figure 6 & 7).

Anyway, the spatial unbalance is very serious in China.

Target 6: Improving the Public Services

- Firstly, the overall public services are quite poor in China (see Table 5) .
- Secondly, the unbalance of public services in different regions is very serious(see Table 5)
- The gap between the highest and the lowest on per capita governmental expenditures(2005) ——
- **Education:** Shanghai vs. Sichuan: 6:1
- **Public Health:** Beijing vs. Hunan: 11:1
- **Social security:** Shanghai vs. Zhejiang: 6.85:1
- **City Maintenance:** Tianjin vs. Tibet: 31.7:1

3 The Challenges to Achieve the Goals

- To solve the problems elaborated above, we need to investigate the root causes of the problems, and what the difficulties to realize them are.

3.1 The Challenge to Shift the Growth Model

- **Firstly, the government-led investments must result in low efficiency.**
- **Secondly, the poor performance of SOEs is one of the biggest causes of inefficient growth.**
- **Thirdly, the inefficient SOEs can easily access the financial resources, but the efficient private firms not.**
- **Fourthly, the SOEs monopoly is a big problem. Free entry problem.**
- **Fifthly, the underdevelopment of the financial market and the lack of social security lead to the high saving in China.**
- **Sixthly, the Chinese firms' overall capability for technological innovation yet to be enhanced.**

3.2 The Challenges to Optimize Industrial Structure

- Firstly, the precondition for the market to fully function in optimizing the industrial structure is that the government must be shifted to a limited government.
- Secondly, the SOEs problem is the major obstacle to optimize the industrial structure.
- Thirdly, there are still many discriminative policies imposed to private enterprises.
- Fourthly, China's financial resources allocation system is SOEs-biased.

3.3 The Challenges for Solving the Agriculture-related Problems

- **Why the agricultural problems?**
- **Two conditions to use price scissors in the past—**
—
- **A. The institutional rural-urban barriers**
 - (residence registration, education, quota, house, etc.)
- **B. communal land system**
- **Two key problems yet to be resolved —**
—
- **land problem + institutional rural-urban barriers.**

The Trade-off Resulted by the Two Problems

- A. the land resources can not be efficiently re-allocated through market.
- B. the efficient economic organizations can hardly emerge in the rural areas.
- C. the tie between the migrants and land cannot be completely cut off.
- D. land abandonment.

- To establish a virtuous circle between industrialization, urbanization, migration and agricultural performance, China needs to focus on — —
- (i) land reform; (ii) removing the institutional rural-urban barriers, and (iii) increase governmental investments in the rural areas.

3.4 The challenges to Build a Resources-Conserving Economy

- **Firstly**, the market is distorted and some prices of the natural resources do not reflect their real scarcities.
- **Secondly**, weak incentive for SOEs to save resources.
- **Thirdly**, Price is not determined by market.
- **Fourthly**, SOEs dominant the energy sectors(almost monopolistically).
- **Fifthly**, there are some technical difficulties.

- Anyway, a fully functioning market economy is resources-allocation-efficient, and must be a conserving economy!

3.5 The Challenges for Spatial Balance

- In addition to the geographic disadvantages, the biggest challenge to promote the development of the backward regions are:
 - A. To establish the market-led development.
 - B. Reforms the SOEs, and etc.
 - C. To increase the governmental transfer payments to improve the infrastructures, and achieve equality.
- **Lesson:** Governmental projects-oriented measures not working!

3.6 The Challenges to Improve the Public Services

- Firstly, the biggest challenge is how to establish the government accountability and improve the incentive of local governments.
- Secondly, most of the public services are provided by the inefficient monopolistic SOEs and Public Service Units.
- Thirdly, the fiscal incapability of the local government, because the local governments do not have sufficient bargaining power when negotiate with the higher government on transfer payments and assignments of revenue and expenditures.

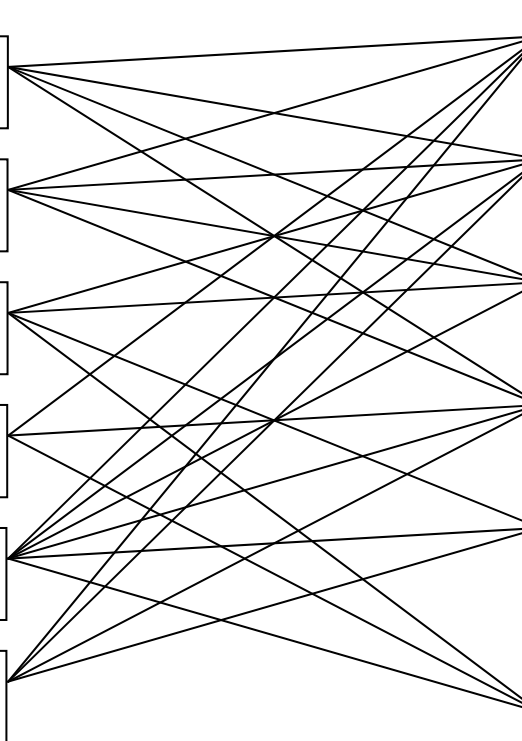
4 The Reforms Yet to be Finished

Targets

- 1. Efficient Growth Model
- 2. upgraded Industry Structure
- 3. New Village Campaign
- 4. Conserving Society
- 5. Spatial Balance
- 6. Good Public Services

Reforms

- 1. SOEs Reforms
- 2. Governmental Reforms
- 3. Financial Reforms
- 4. Monopoly Reforms
- 5. Fiscal Reform
- 6. Others: social security, residence registration, education, land, price, land, etc.



4.1 The Reforms of the SOEs in China

- **Firstly, what is the fundamental reason to restructure the SOEs?**
 - — —The role of the State in market: Referee? Player? Or Both?
- **Secondly, can the effective corporate governance be established without property right reforms?**
- **Thirdly, have the SOEs deviated the initial purpose to serve the interests of all people——their real owners?**
 - — —SOEs are taken by some interest groups as hostage to pursue their own interests?

4.2 The Opening-up of the Monopolistic Sectors and Deregulation

- **The lucrative monopolistic sectors**(e.g. *telecommunication, aviation, railway, freeway, oil, iron & steel, automobile, hospital, high education, urban utilities, and etc*).
- **The biggest problems for private firms——**
 - (a) The related laws need to be amended;
 - (b) Deregulation;
 - (c) The private firms lack of financial channels.
 - (d) The governmental opportunism behaviors.
- A long way to go to completely implement the policies.

4.3 Financial and Fiscal Reforms

- The objective of financial reforms: a more efficient financial market that can better serve the economic development.
- **Financial Reforms**
- (a) State banks; (b) Restructure of the capital market; (c) Supervision and regulatory system;
- (d) Marketization of interest and foreign exchange;
- (e) effective mechanism for macroeconomic polices, and etc.
- **The objectives of fiscal reforms**
- (a) public finance. (b) to establish an efficient intergovernmental relationships, including intergovernmental assignment of revenue and expenditures responsibility, and transfer payments system.

4. 4 Governmental System Reforms

- Primer Wen Jiabao(2005): The focus of the reforms next step in China is to further shift the function of the government.
- **Horizontal:** to draw a clear dividing line between the market and the government.
 - — **Problems:** (i)The government charges too much things that should not be charged by it, while (ii)many affairs that should be charged by it have not be satisfactorily done.
 - — **Preconditions:** private property protection, human rights, civil society, rule of law, limited government, and etc.
- **Vertical:** to establish efficient intergovernmental relationships, including intergovernmental assignments of revenue and expenditures, and transfer payments, and etc.

4.5 The Other Reforms

- **Remove the institutional rural-urban barriers and citizenize the rural-urban migrants**
 - Rural land system reforms,
 - Residence registration system,
 - Social security system,
 - Employment system,
 - Education reforms, and etc.
- **The final objective of all the reforms**
 - To establish a fully-functioning market economic system!

5 The Prospect of the Chinese Economy

Change of World Bank's Role in China

“Over the last 25 years, the Bank Group’s relationship with China has **evolved**

from

one where the Bank Group shared its international experience with a newly emerging China

to

one where China, as it begins to take a larger role in the international community, is increasingly sharing its experiences and its thinking on global development issues with the Bank Group and the rest of the world”
(World Bank, 2006, p. v).

How to view the Chinese economy?

- Firstly, China's transition to market economic system takes time, and cannot be expected to finish overnight.
- Secondly, the process of rapid industrialization and urbanization in China will last for a relatively long time.
- Thirdly, in terms of the advantages for economic development, very few countries can compare with China.
- Fourthly, in the global and historic perspectives, it is optimistic to the prospect of China's economic development.

6. Concluding Remarks

- It is time for China to pursue the all-round development, and undertake the hardest reforms in the 11th five-year plan.
- The 11th five year plan has covered all important issues China needs to address.
- Only the market economic system can make the goals to be self-enforced in the most efficient way.
- China needs to fully engage in the reforms, and improve its market economic system.
- The prospect of the Chinese economy is quite optimistic.

● **Thanks!**