

Economic Planning in China

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This paper provides an up-to-date study of economic planning in China as it affects the economic development, growth and fluctuations of the Chinese economy. Although economic planning has been practiced in China since 1953 when the first Five-Year Plan began, its nature has changed after economic reform started in 1978. Market reform reduced the importance of central planning, but more recently the global economic recession and China's active macro-economic policy interventions have increased the importance of economic planning.

Our discussion is divided into the following sections: 1. Role of planning in the Chinese economy. 2. Scope of planning. 3. Numerical targets of the Plan and the degree to which the targets are met. 4. Organization of the NCDR. 5. How a plan is implemented. 6. Effects of planning on China's economic development.

1. Role of planning in the Chinese economy

The Chinese economy is a mixed economy as it combines important features of a market economy and a planned economy. To understand the role of economic planning in China it is necessary to review its history briefly. During the period from 1953 when the first Five-Year Plan began to the end of the 1970s China practiced central planning under the direction of the State Planning Commission (SPC). The main function of planning was to direct the production of major products by state-owned enterprises. The State Council had a large number of ministries most of which were responsible for the production of the corresponding products. There were ministries for agriculture and fisheries, forestry, coal, petroleum, chemical products, metallurgy, consumer products, textile, machine building, electronics, nuclear energy, aircraft, ammunitions, space, geology and mineral resources, water resources and electric power, railroads, transportation and communications, posts and telecommunications, urban and rural construction and environmental protection, finance, commerce, etc.

Beginning in 1978 the Chinese government changed the economic system gradually towards a market economy, allowing non-state enterprises to produce and compete with state enterprises. The Commission for Restructuring the Economic System was established in 1982 to direct economic reform. This Commission was under the chairmanship of the Prime Minister himself while the Planning Commission was chaired by a Vice Premier. In 1998, the SPC was renamed the State

Development Planning Commission (SDPC), which then merged with the Commission for Restructuring the Economic System and the State Economic and Trade Commission (SETC). In 2006 it was renamed the National Commission for Development and Reform (NCDR), with the term planning omitted perhaps to convey to the world that China was no longer a centrally planned economy. The NCDR continues to prepare Five-Year Plans based on a draft from the Central Committee of the Communist Party. Each Plan has to be approved by the National People's Congress.

From the above brief description of the historical development of the NDRC, we note that historical tradition affects the nature and functioning of economic planning in China today. Many of the departments, bureaus and officers in the component predecessor commissions remain as well as the thinking and working habit of the staffs within these organizations. During the period of economic reform beginning in 1978, Chinese government officials were shown the efficacy of the market economy by experimentation but they continued to believe in the importance of planning. The course of economic reform was to allow elements of both the market economy and economic planning to coexist and serve the Chinese economy. State and non-state enterprises coexist and compete with one another. Although a market economy functions effectively in China, the idea that planning is essential for China's economic development remains in the mind of government officials until today.

2. Scope of planning

The scope of planning today can be described by the contents of the most recent two Five-Year Plans. I will use the main parts of the 12th Five-Year Plan (from 2011–2015) as the basis and indicate the parts of the 11th Five-Year Plan which are in common or different. The 16 parts of the 12th Five-Year Plan are as follows:

1. Guiding principles and general directions, as specified in chapters 1 to 4.
2. Agriculture (same for 11th Five-Year Plan)
3. Upgrading industry (same)
4. Promoting the service sector (same)
5. Regional and urban development (same).
6. Energy and environment (same)
7. Education, science and technology (same)
8. People's livelihood and welfare (new)
9. Strengthening management of society (new)
10. Promoting socialist culture (same, in part 12)

11. Perfecting economic Reform (same, in part 8)
12. Advancing the open door policy (same, in part 9)
13. Promoting democracy under socialism (same, in part 11)
14. Establishing a harmonious society (same, in part 10)
15. Strengthening defense (same, in part 13)
16. Plan execution (same, in part 14)

From the 16 parts we note the four areas covered by the work of the National Development and Reform Commission. The first is the work carried over by the former State Planning Commission, namely, production in different sectors as specified by parts 2 to 7. The second is the work of the former Commission for Restructuring the Economic System, including parts 11 and 12. The third is social stability and welfare, including parts 8, 9, 10, 13 and 14. The fourth area is defense, part 15. As a result of economic reform in part 11, government institutions such as a modern central bank was set up to conduct monetary policy for a market economy. This is not strictly speaking a part of planning although it is a part of the work of NDRC.

By comparing the two Five-Year Plans we note that the 12th Five-Year Plan has added two new parts to the 11th Five-Year Plan. The new parts are part 8, People's livelihood and welfare and part 9, Strengthening management of society. These new parts suggest that there is an increase in the concern on the part of the Communist Party and the Chinese government with the livelihood and welfare of the people, and with the stability of the society. The latter may be due to the increasing complexity in managing the society in the course of rapid economic development. The complexity has resulted partly from the global recession beginning in 2008 and partly from the recent political instability in the Middle East and North Africa.

Among the new directions of the 12th Five-Year Plan the following should be noted. Partly to achieve the new goals set in parts 8 and 9, 12th Five-Year Plan aims to promote the expansion of aggregate consumption as a fraction of GDP while building the social security net. In achieving the traditional goals it will increase government expenditures to build mass infrastructure, to reduce income disparity and regional differences and to make greater investment in human capital via higher education and R&D.

3. Numerical targets and the degree to which they are met

I present in Table 1 a selected set of numerical targets of the 11th Five-Year Plan and the extent to which they were met as reported in official government statistics.

Table 1: 11th Five-Year Plan Targets and Realizations

	2005	Target 2010	Target increase	Realized 2010	Realized increase
GDP (trillion)	18.5		7.5 %/year	39.8	11.2%/year E
Per capita GDP	14185		6.6%/year	29748	10.6%/year E
Increase in service sector (% of output)	40.5%		3%	43.0%	2.5% N
Increase in service Employment (% of total)	31.3%		4%	34.8%	3.5% N
Expenditure on research (% of GDP)	1.3%	2%	0.7%	1.75%	0.45% N
Urbanization rate	43%	47%	4%	47.5%	4.5% E
Population (10,000)	130756	136000	<8%	134100	5.1%
Reduction in Energy use			20%		19.1% N
Cultivated Land (100 million hectares)	1.22	1.2	-0.3%/year	1.212	-0.13%/year E
Carbon emission reduction			10%/year		14.29%/year E
Years of schooling (mean for population)	8.5	9	0.5%/year	9	0.5%/year E
Urban retirement insurance coverage (100 million)	1.74	2.23	5.1%/year	2.57	8.1%/year E
Rural health insurance coverage	23.5%	>80%	>56.5%/year	96.3%	>72.8%/year E
Increase in urban employment (10,000)			4500		5771 E
Urban unemployment rate	4.2%	5%		4.1%	E
Urban disposable income per capita	10493		5%/year	19109	9.7%/year E
Rural net income per capita	3255		5%/year	5919	8.9%/year E

Note: E for exceeding target; N for not exceeding.

This table provides some of the important targets specified by a Five-Year Plan. It also shows that the targets are set in such a way that most can be met. Of the 17 targets included in the table, all except four have been exceeded by the realized amount (marked by E in the last column of the

table). The four are the output of the service sector as a percentage of total output, employment in the service sectors as a percentage of total employment, expenditure on research as a percentage of GDP and the percentage reduction in the use of energy (marked by N in the last column of the table). The realization of total population is not classified because one can question whether a realization of a larger population than the target is desirable or not. In any case the realized figure is within the range targeted. Setting most targets that can be met has been a practice not only of the 11th and 12th Five-Year Plan but in other Five-Year Plans of recent years also. The targets serve to call the attention of the Chinese people and government officials involved to the specific economic objectives and to rally their support to achieve them.

4. Organization of the NCDR

To understand how the NCDR carries out its tasks let us look at its organization chart to find out how the responsibilities are divided. The chart shows a large number of departments, bureaus and officers which were inherited from the previous parent Commissions and not designed rationally to perform the tasks of the present Commission.

According to Wikipedia under the section “structure” of the National Development and Reform Commission, its functional departments/bureaus/offices include:

- General Office
- Office of Policy Studies
- Department of Development Planning
- Department of National Economy
- Bureau of Economic Operations (Inter-Ministerial Office of the Alleviation of Enterprise Burden under the State Council)
- Department of Economic System Reform
- Department of Fixed Assets Investment
- Department of Industrial Policies
- Department of Foreign Capital Utilization
- Department of Regional Economy
- Department of Rural Economy
- Bureau of Energy (National Oil Reserve Office)
- Department of Transportation
- Department of Industry (Office of Rare Earth, Office of Salt Industry Administration, National Chemical Weapons Convention Implementation Office)
- Department of High-Tech Industry
- Department of Small and Medium-Sized Enterprises

- Department of Resource Conservation and Environmental Protection (Office of National Coordination Committee for Climate Change)
- Department of Social Development
- Department of Trade
- Department of Fiscal and Financial Affairs
- Department of Price
- Department of Price Supervision
- Department of Employment and Income Distribution
- Department of Laws and Regulations
- Department of International Cooperation
- Department of Personnel
- The NDRC Party Committee
- Office of National Economic Mobilization
- Office of Key Project Inspectors
- State Bureau of Material Reserve
- State Grain Administration
- State Tobacco Monopoly Administration (China National Tobacco Corporation)
- Office of the Leading Group for Western Region Development of the State Council
- Office of the Leading Group for Revitalizing Northeast China and Other Old Industrial Bases of the State Council
- Office of the National Energy Leading Group

This list shows that the organization of NDRC is the result of its historical development and not of rational design for the purpose of achieving its current important tasks. However such a horizontal design can serve the objective of NDRC because it is essentially a staff and not line organization. Its task is to set the targets of planning while leaving the responsibility of plan execution to the ministries and officers of the State Council. The NDRC is where the actions are planned and not where the plan is executed.

5. How planning is carried out

It is mainly the ministries and offices of the State Council that carry out the plan drafted by the various departments, bureaus and offices of the NDRC. Because the Chinese government has substantial amounts of economic resources under its direct control through the ownership of shares of industrial and commercial enterprises it can achieve the objectives set out by the Five-Year Plan by using these resources. It can also use fiscal and monetary policies to influence the use of resources controlled by non-government economic units. Thus we can classify the means to achieve the planning objectives into two categories.

A. Using resources under the direct control of the government (as in a socialist economy) by directing state-owned enterprises and government agencies to produce specific kinds of goods and services. Besides, the Chinese government has direct control over the citizens in their economic behavior and can order the citizens to achieve targets of the Plan. A notable example is the control of the birth rate under the one-child per family policy. This policy has been modified to allow two children for families with both parents being a single child and to allow the payment of fines for an extra child.

B. Influencing the activities of economic agents in the private sector

1. Use government expenditures to obtain the work by private economic organizations. Contract out government projects.
2. Use economic incentives to influence the work of non-government economic organizations, including tax and subsidies in fiscal policies and setting interest rates and money supply as in monetary policies.

In reality production of many sectors of the Chinese economy are carried out by both state-owned and non-state enterprises. This is because the Chinese government is pragmatic in allowing both sets of enterprises to compete in order to increase economic efficiency.

Politically, China is under the leadership of the Communist Party. As the NCDR received directions from the Party in drafting the Five-Year Plan, the Party exercises its power by directing the Party secretaries in all the units having responsibilities in carrying out all aspects of the Plan. On the part of the government, the chain of command goes from the central government to governments at the provincial, city, county and village levels, for the purpose of economic planning and other activities as well. Government actions at all levels are under the direction of the Party at the corresponding level as just pointed out.

6. Effects of planning on China's economic development

How does the planning system affect the functioning of the Chinese economy? Planning symbolizes the tradition of collectivism of the Chinese society, in contrast with individualism in the United States. The Chinese government sets out a five-year plan to get the support not only of government officials but of all Chinese people outside the government to help achieve the tasks

specified by the Plan. Even though some of the targets set out in the Plan are not met in practice the Chinese people are urged to do their part as detailed in the different parts of the Plan. For an observer, knowledge of the Plan provides the areas of economic activities where the government is paying attention. The United States does not have such a planning system. There is no need to watch such a government plan to understand the development of the US economy. The planning system in China helps define the “mixed economy” for China.

Conclusion

To conclude this paper I summarize two important reasons why understand economic planning in China is important.

1. Domestically, we need to understand the four areas of government activities affecting the economy, 1) directing output of individual industrial sectors and regions, 2) continuing reform of the market institutions and the open door policies, 3) caring for social welfare and social stability and 4) defense. The activities in the first three are much more extensive than in the US. We see the contrast between collectivism in China v. individual freedom in the US, between strong government v. limited government in the US, and between a fairly effective government v. a somewhat divided government in the US. However, having such a planning system does not imply that China is free of serious economic problems such as wastes, inflation and social instability generated by income inequality that need to be resolved.
2. Internationally, we can better understand the nature of economic cooperation and competition between the two groups of nations, one led by the US that advocates the “Washington Consensus” to promote free trade and globalization and the second led by China that limits the excesses of free markets and practices government directions of economic activities. This paper describes the internal forces at work to achieve China’s global agenda. Even though the planning system has deficiencies in China’s mixed economy, it is an asset more than a liability for China to play its role as a leader of the world economy.