

# The Distinctive Transition of China's Five-Year Plans

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## **Abstract**

China has taken a distinctive path of economic transition, combining both the market and the plan. In introducing the market mechanism, the government has not abandoned the planning mechanism, as was done in other socialist countries, but instead has reformed it. The five-year plan has thus been transformed from economic planning to public affairs governance planning. Today the plan and the market are combined so that the two supplement and stimulate each other.

## **Keywords**

brainstorming, decision making, democratization, economic transition, five-year plan, institutionalization, scientization

From an international perspective, China has taken a very special path of economic transition. Unlike most other socialist countries, which have thoroughly discarded a planned economy system and a “five-year-plan” approach, China has retained the latter as an integral part of its development policy. The five-year plan is thus one of three fundamental approaches to governmental macro-regulation, including self-adjustment and self-reform, in the course of innovation in the socialist market economy. China’s economic reform does

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not involve simply replacing the traditional planned economy with a market economy, that is, replacing “one hand” (the plan) with “another hand” (the market); instead, it involves replacing “one hand” (the plan) with “two hands” (both the plan and the market). In other words, the Chinese government has introduced the market mechanism, which plays the fundamental role of resource allocation, while reforming the planning mechanism, thus facilitating the transition of planning itself from economic planning to public affairs governance 公共事务治理 planning. It has combined these two to enable the market and the plan to supplement and stimulate each other as a means of promoting China’s economic development.

Western scholarship has a narrow understanding of the unique transition of the five-year plan system in China; the mainstream view is that the reform of China’s economic system is just a transition from the planned economy to a market economy, and that China’s five-year plan is simply a residue of the planned economy. However, in their article in this issue, Sebastian Heilmann and Oliver Melton take a different approach. They have, for the first time in Western scholarship, essentially corrected the mainstream view. They have researched the transition of the planned economy system after 1993 in China in a way that is more objective and also builds upon more specialized knowledge. Their work amounts to a new understanding of the important institutional arrangements behind China’s economic miracle. Their most important achievement is an accurate, comprehensive analysis of the relevant institutional arrangements.

Since 1999, I have directly taken part in the background research, design of objectives, and mid-term and later-term evaluation of the national Tenth, Eleventh, and Twelfth Five-Year Plans and have researched and provided policy advice on China’s five-year plans (including as a member of the National Development Plan Expert Commission in 2005) (see Hu, 1999, 2005a, 2005b, 2006, 2009a, 2009b; Hu and Wang, 1999, 2005; Hu, Wang, and Yan, 2005, 2009; Center for Chinese Studies, 2008, 2009a–d; Yan, 2005). The results of the research of Sebastian Heilmann and Oliver Melton are consistent with the results of our series of research on the five-year plan (Hu, 2011; Hu, Yan, and Lü, 2010, 2011; Yan, 2013; Wang, Hu, and Yan, forthcoming). Here I would like to make some comments based on that research. With the reform and transition of China’s five-year plan system, the five-year plan has been fundamentally changed. Today’s plan is totally different from previous plans in at least three respects, which have changed the nature and role of the five-year plan. With the support of the invisible hand of the market, the plan has become part of a unique “two hands” approach to national development and governance.

## **From an Economic Plan to a Public Affairs Governance Plan**

Heilmann and Melton's article argues that China's development plan has changed fundamentally in function, in content, and in other aspects. Development planning continues to play an important role, while leaving ample room for the development of a market economy. The plan performs an important function in strategic policy coordination, resource mobilization, and macroeconomic control.

I believe this observation accords with China's actual conditions. With the transition from a planned economic system to the market economic system, there has been a transition of the five-year plan itself. The reform of China's planned economy system has taken the path of a transition in the nature of the plan rather than going simply from a plan that reigns supreme to a plan that is useless. This adaptive transition has involved a transition from a market-excluding economic plan mainly depending on economic indicators in the micro-field to a market-friendly overall development plan based on public service indicators in the macro-field.

According to an analysis of the composition of the various objectives from the Sixth Five-Year Plan made in 1981 to the Twelfth Five-Year Plan launched in 2011 (see Table 1), indicators can be roughly classified into two quantitative categories: the first are economic indicators involving economic growth and economic structure; the second are noneconomic indicators covering education and technology, resources and environment, and people's livelihood. In the Sixth Five-Year Plan made at the beginning of the economic reform period, economic indicators accounted for 60.7 percent of the total and all were mandatory plan indicators, while noneconomic indicators were less than 40 percent of the total. These figures represent a typical economic plan. With the progress of China's economic reform, the proportion of economic indicators has been dropping. This was especially the case with the Ninth Five-Year Plan, the first five-year plan under the socialist market economy system, in which the proportion of the economic indicators dropped from 57.7 percent in the Eighth Five-Year Plan to 47 percent. Moreover, most of the economic indicators are no longer mandatory plan targets but rather prognostic indicators. When the Twelfth Five-Year Plan was launched, the proportion of economic indicators dropped to 12.5 percent while that of noneconomic indicators rose to 87.5 percent. Educational and technological indicators are 16.7 percent of the total, resource and environmental indicators one third, and people's livelihood indicators 37.5 percent. Thus, it is reasonable to believe that through the seven five-year plans, China has completed the fundamental transition from economic planning to public affairs governance.

**Table 1.** Proportion of Quantified Indicators of Different Types in Each Five-Year Plan (6th Five-Year Plan Period to 12th Five-Year Plan Period).

	6th Five-Year Plan	7th Five-Year Plan	8th Five-Year Plan	9th Five-Year Plan	10th Five-Year Plan	11th Five-Year Plan	12th Five-Year Plan
Economic growth	15.2	21.4	26.9	23.5	10	9.1	4.2
Economic structure	45.5	35.7	30.8	23.5	23.3	13.6 <sup>a</sup>	8.3
Total proportion of economic indicators	60.7	57.1	57.7	47	33.3	22.7	12.5
Education and technology	15.2	7.1	3.8	11.8	23.3	9.1	16.7
Resources and environment	3	3.6	7.7	11.8	20	27.2 <sup>b</sup>	33.3 (42.9) <sup>c</sup>
People's livelihood	21.2	32.1	30.8	29.4	23.3	41	37.5
Total proportion of social indicators	39.3	42.9	42.3	53	67.7	77.3	87.5

Note. Figures are given in percentages.

a. Excluding technological indicators.

b. Excluding population indicators, which are included in the statistics on people's livelihood.

c. The figures in parentheses are actual figures of indicators. There are 28 indicators in total, including 12 green-related indicators.

Unlike the plans which arranged investment and physical production in the planned economy era, today's five-year plan has become a public affairs governance plan to promote energy conservation, emissions reductions, and social security, and provide a framework for macroeconomic development. That is a course from quantitative change to qualitative change. Every five-year plan is a small step of quantitative change which contributes to the final qualitative change.

China's experience shows that an economy is just like a person in that two hands are always better than one. However, the "two hands" have different mechanisms, functions, and roles. The hand of the market aims to promote economic prosperity and the hand of the plan to promote a harmonious society; the hand of the market is engaged in providing private goods and the hand of the plan in providing public goods. The two "hands" are complementary and mutually reinforcing, working together to promote China's development to a new level. The role of government is to supplement and regulate the market instead of to exclude it or replace it; the "visible hand" is not only the

“helping hand” that is market-friendly and market-serving but also the “transparent hand,” which is really “visible” to the market players.

## **Democratization, Scientization, and Institutionalization during the Making of Five-Year Plans**

Heilmann and Melton’s article introduces the flow of the preparations of the five-year plan taking the Eleventh Five-Year Plan as an example and argues that this flow is an uninterrupted process of information collection, analysis, drafting, implementation, evaluation, and modification. This represents a breakthrough from the stereotyped model of the making of the five-year plan in China as a rigid, authoritarian formality.

In fact, China may have the most democratized, scientized 科学化, and institutionalized process of making five-year plans in the world, though it has gone through a long transition from quantitative change to qualitative change. Our research shows that the way the Chinese five-year plan is made has gone through five stages of evolution: an internal collective decision-making mode in the first stage (the First Five-Year Plan to the early period of the Second Five-Year Plan); an authoritarian decision-making mode in the second stage (the late Second Five-Year Plan period to the Fourth Five-Year Plan); a reconstruction of the internal collective decision-making mode in the third stage (Fifth Five-Year Plan period and Sixth Five-year Plan period); a consultation-based decision-making mode in the fourth stage (the Seventh Five-Year Plan period to the Ninth Five-Year Plan period); and a brainstorming-type of decision-making mode in the fifth stage (the Tenth Five-year Plan period to the Twelfth Five-Year Plan period) (Hu, 2011; Wang, Hu, and Yan, forthcoming). This also reflects the evolution of policy making in the Chinese central government: a golden age of institution building that appeared at the beginning of new China; a destructive period that began with the Eighth National Congress of the Chinese Communist Party (CCP) and lasted until the end of the Cultural Revolution; then a period of reconstructing the five-year plan system with the Sixth Five-Year Plan period; and finally, a brainstorming-type decision-making mode formed through a sustained course of democratization, scientization, and institutionalization.

The preparation of the Twelfth Five-Year Plan is the best case example of democratization, scientization, and institutionalization in China’s public decision making. The entire process of preparation involved eleven steps, including a mid-term evaluation (2008); early-stage research (2008–2010); formation of “Basic Thinking Behind the National Twelfth Five-Year Plan” (2010);

drafting of the CCP's "Suggestions of the CCP Concerning the Making of the Twelfth Five-Year Plan for the National Economy and Social Development" ("Suggestions") (2010); approval of the "Suggestions" (2010); drafting of an "Outline of the Twelfth Five-Year Plan for the National Economy and Social Development of the PRC" ("Outline") (2010); elucidation 论证 by the National Plan Expert Commission (2010); extensive solicitation of internal and external opinions (2010–2011); the National People's Congress's deliberation over and approval of the "Outline (Draft)" (2011); the official announcement of the "Outline" (2011); and the implementation of the plan (2011–present) (Hu, 2011).

We called the mode of the preparation of the five-year plan a "putting many heads together for the best results mode" 广思集益. This refers to a set of procedures and mechanisms aiming at putting the heads of all the parties together and optimizing the quality of decision making. The Twelfth Five-Year Plan was the result of over two years of preparation in four rounds of brainstorming: a mid-term evaluation of the Eleventh Five-Year Plan, research on the basic thinking of the Twelfth Five-Year Plan period, the preparation of the CCP's "Suggestions," and the official preparation of the "Outline." Each step in the "brainstorming" involved five links. First, divergent thinking: mobilizing all parties to provide opinions and suggestions through some mechanism in the early stage of preparation. Second, collective wisdom: collecting information for analysis, comparison, and identification to "get rid of the unrefined and keep the essence, get rid of the fake and keep the real" 去粗存精、去伪存真 and, on that basis, drafting the policy text. Third, soliciting opinions: after the draft of the phased policy was formed, sending it to relevant parties for their views. Fourth, collective decision making: the draft of the policy was determined by leaders or leading institutions through discussion at different decision-making levels until the highest decision-making level finally confirmed and validated the policy document. Fifth, communication and implementation: circulating the policy document among all the parties for the purpose of soliciting opinions for decision making at the lower level or laying a foundation for consensus on the implementation of the official policy.

Brainstorming-type decision making is a unique Chinese decision-making mode based on democratic centralism whereby all departments under the central government, think tanks and experts, nongovernmental organizations, international organizations and scholars, the public, and so on, in other words, all stakeholders, are encouraged to take part in the decision-making process, thus giving full play to democracy. Usually in the first step come democracy and then centralism, or divergence first and then consensus, and so on for the following steps. Therefore the outcome of every step reflects consensus.

The brainstorming decision-making mode is also a scientific decision-making mode because only in this way can decision makers with limited rationality handle a mass of dispersed and insufficient information and then deal with and accommodate the diverse interests of different stakeholders.

### **From the Paradox of “Tightening” and “Loosening” to “Initiatives of Two Parties”**

In their article, Heilmann and Melton discusses the question of initiative during the making and implementation of the five-year plan and contend that the five-year plan system has undergone a process of decentralization, which is reflected by the extensive involvement of local government in the process of formulation and in programs and experiments during implementation.

How should one identify the relationship between the central government and local government? The national five-year plan is formulated by the State Council and approved by the National People’s Congress, whereas local five-year plans are developed independently by local governments and approved by local people’s congresses. We have used quantitative methods to view the relationship between them. This is an objective method consistent with the functions of both the central and local governments (see Table 2). Our research shows that since reform and opening up, the local-objective function and central-objective function have tended to match each other (Hu, Yan, and Lü, 2011; Yan, 2013: chap. 7). In the Sixth Five-Year Plan period, 64.7 percent of the indicators of the local and central governments were consistent; by the Eighth Five-Year Plan period, the figure had risen to 77.9 percent. However, in the Ninth Five-Year Plan period, the figure dropped to 43.2 percent. The figure bounced back during the Tenth Five-Year Plan period and rose to 83.2 percent during the Eleventh Five-Year Plan period, the peak since the launching of the reform and opening up. The figure stands at 74.9 percent during the Twelfth Five-Year Plan period. But as a rule, the number of local objectives and indicators are greater than the number of national objectives and indicators, reflecting local regions’ developmental needs. In this sense, local governments complete the national objectives and indicators while accomplishing local objectives and indicators. Both of them should be compatible with each other on the one hand, and on the other hand, each of them should encompass not only universality, but also individuality and particularity. This reflects the trend of the relationship between the central and local governments toward more compatibility and shows the advantage of the “initiative of two parties” over the “initiative of one party.”

**Table 2.** Proportion of Consistent Indicators of Local Five-Year Plans and the National Five-Year Plan (6th Five-Year Plan to 12th Five-Year Plan) Unit: %.

	6th Five-Year Plan	7th Five-Year Plan	8th Five-Year Plan	9th Five-Year Plan	10th Five-Year Plan	11th Five-Year Plan	12th Five-Year Plan
All indicators	64.7	77.5	77.9	43.2 (42.1)	53.2 (46.6)	83.2 (89.3)	74.9 (76.9)
Economic indicators	56.4	81.0	79.2	27.1	25.3	59.9	34.0
Noneconomic indicators	89.3	70.7	76.0	62.8	66.4	95.5	86.7

Note. Figures are given in percentages. (a) Economic indicators consist of economic growth indicators and economic structure indicators; noneconomic indicators refer to indicators involving people's livelihood, resources and environment, education and technology, public service, and so on. (b) Indicators consistent with the central government consist of indicators identical with indicators of the central government and those reflecting indicators of the central government; others are indicators set by local governments. (c) The figures in the columns from the 6th Five-Year Plan to the 8th Five-Year Plan are means calculated in terms of the five-year plans of three provinces—Zhejiang, Jilin, and Qinghai; the figures in the columns from the 9th Five-Year Plan to the 12th Five-Year Plan are means calculated in terms of the five-year plans of 31 provinces, municipalities directly under the central government, and autonomous regions. (d) For comparability, the means of three provinces—Zhejiang, Jilin, and Qinghai—are provided in parentheses in the columns from the 9th Five-Year Plan to the 12th Five-Year Plan.

With respect to institutional arrangements, this transition ultimately avoids the paradox of “tightening leads to a deadlock and loosening causes chaos” characteristic of the period of the planned economy. It not only ensures the independence of local government but also guarantees the unity of the central government. It gives real play to the initiatives of both the central and local governments.

## Conclusion

The experience of the institutional transition of the Chinese five-year plan system shows that, in this big developing country, one should give full play not only to the role of “two hands” but also to the initiative of both the central and local governments. One should also give full play to the roles of brains: “internal brains” and “external brains,” minimizing asymmetry of information and asymmetry of power, making the objectives of the central government and local government consistent, inspiring a high degree of autonomy but also ensuring a high degree of unity. Putting in full play the role of “two hands” and the combination of the initiative of the central and local governments will minimize the cost of governance while maximizing the gains; in this way, local governments are willing to work creatively and all parties are



able to gather resources in a big program. As a result, the performance of governance is far higher not only than in the period of the planned economy, but also higher than in the mature market economy of Western countries. That is an important source of the miracle of the Chinese economy.

Today this huge country with a population of over one billion is undergoing unprecedented institutional innovation, and the research and recognition of the international academy on this innovation has just started. In this sense, Sebastian Heilmann and Oliver Melton's article plays the role of torchbearer.

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