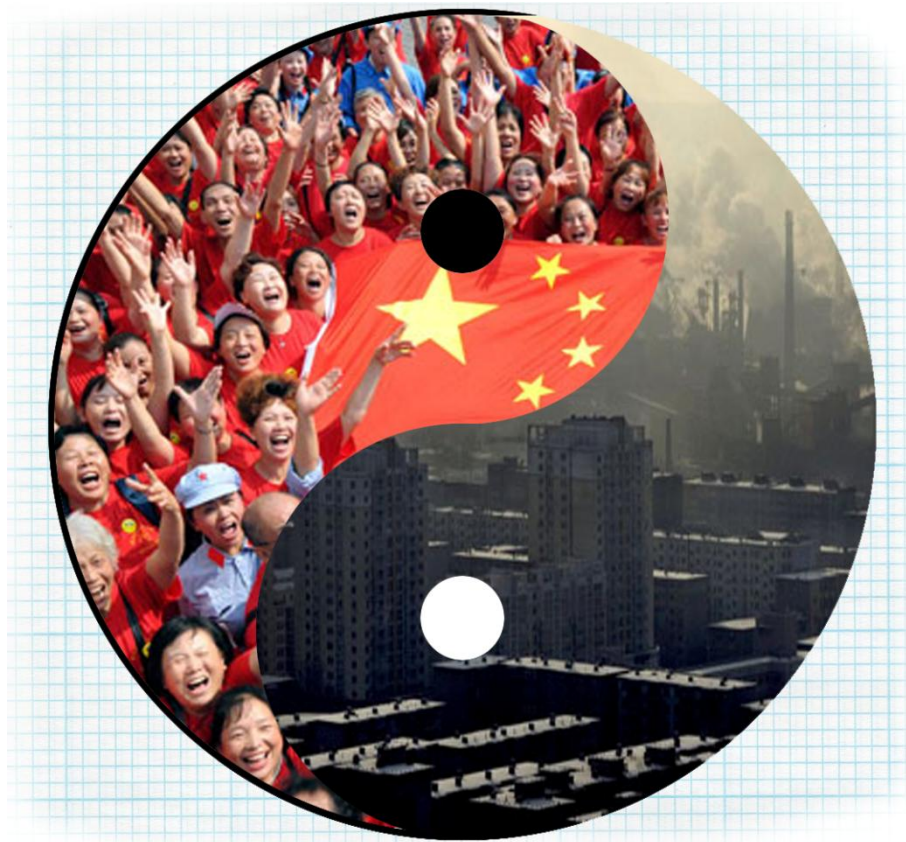


**ICS REPORT**

# **THE PLANNING PROCESS OF CHINA**



**INSTITUTE OF CHINESE STUDIES**

**DELHI**

**(A study sponsored by Planning Commission,  
Government of India)**

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PREPARED BY

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**(A study sponsored by the Planning Commission,  
Government of India)**

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# Table of Contents

## Executive Summary

Acknowledgements .....	3
1. INTRODUCTION .....	5
1.1. THE CHINESE COMMUNIST PARTY .....	7
1.2. THE GOVERNMENT .....	8
1.3. CENTRE AND THE PROVINCE/LOCALITY: FEDERALISM IN A UNITARY STATE .....	10
1.4 MAP OF PRC ADMINISTRATIVE DIVISIONS.....	13
2. HISTORICAL BACKGROUND .....	14
2.1 THE ESTABLISHMENT OF THE PRC:THE ADOPTION OF THE PLANNED APPROACH TO DEVELOPMENT, 1949-1976 .....	15
2.2. ECONOMIC RESULTS OF THE MAOIST ERA .....	17
2.3 RETREAT FROM COMMAND PLANNING, 1979-2000.....	19
2.4. ROLE OF THE MARKET.....	21
2.5. TOWARDS BALANCED AND SUSTAINABLE GROWTH, 2001-2111 .....	27
3. THE PLANNING SYSTEM.....	30
3.1. RECENT CHANGES IN THE FORMATION OF CHINA'S FYP .....	31
3.2 THE NATIONAL DEVELOPMENT AND REFORM COMMISSION (NDRC) .....	32
3.2.1. DEPARTMENTS AND PERSONNEL .....	33
3.2.2. NDRC STRUCTUREAND POSITION IN THE CHINESE STATE .....	42
3.2.3 THE FORMULATION OF THE GENERAL PLANS .....	46

<b>4. THE FORMULATION OF REGIONAL PLANS -----</b>	<b>50</b>
<b>4.1 PROVINCIAL PER CAPITA GDP-----</b>	<b>53</b>
<b>4.2 PROVINCIAL GROWTH TARGETS IN THE 11<sup>TH</sup> AND 12<sup>TH</sup> FYP -----</b>	<b>54</b>
<b>4.3. CASE STUDIES -----</b>	<b>55</b>
4.3.1. CASE STUDY # 1 - PLANNING PROCESS: GUANGDONG -----	56
4.3.2. CASE STUDY # 2 - IMPLEMENTATION PROCESS: SHANXI-----	63
4.3.3. CASE STUDY # 3 - URBANIZATION: CHENGDU -----	66
<b>5. THE FORMULATION OF SPECIAL PLANS -----</b>	<b>67</b>
<b>6. SOME CONCLUSIONS AND ASSESSMENTS-----</b>	<b>71</b>
<b>7. APPENDIX I: THE FORMULATION OF CORPORATE PLANS -----</b>	<b>74</b>
<b>8. APPENDIX II: INFRASTRUCTUREAND DEVELOPMENT-----</b>	<b>75</b>
<b>9. APPENDIX III: CHINA'S WESTERN DEVELOPMENT STRATEGY/MODEL -</b>	<b>77</b>
<b>10. APPENDIX IV: INTERVIEWS WITH CHINESE ACADEMICS-----</b>	<b>81</b>
<b>11. APPENDIX V: ROLE OF THINK TANKS AND PUBLIC OPINION-----</b>	<b>87</b>
<b>12. APPENDIX VI: STATE OWNERSHIP AND MARKET COMPETITION -----</b>	<b>94</b>
<b>13. APPENDIX VII: THE CCP AND "CRONY COMMUNISM" -----</b>	<b>97</b>
<b>14. APPENDIX VIII: PUBLIC PRIVATE PARTNERSHIP-----</b>	<b>99</b>
<b>15. APPENDIX IX: CHINESE ECONOMIC ACHIEVEMENTS-----</b>	<b>101</b>
<b>16. APPENDIX X: OVERVIEW OF THE 12<sup>TH</sup> FIVE-YEAR PLAN -----</b>	<b>110</b>
<b>17. REFERENCES-----</b>	<b>114</b>
<b>18. POSTSCRIPT -----</b>	<b>124</b>

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## 1. INTRODUCTION

For over three decades the world has been witnessing the singular phenomenon of the “massive, protracted and unexpected” economic growth and development of the People’s Republic of China (PRC). Even when compared to the swift growth of the Asia-Pacific economies during the late twentieth century, it has been China’s “great economic transformation”, (Loren and Rawski, eds. 2008) which has dominated political, economic and social discourses worldwide – among scholars, policymakers and journalists. (See Appendix IX) To all extents and purposes, **the economic model adopted by the *Chinese state***, has successfully combined rapid economic growth with relative political stability. The Chinese people on the whole, have experienced improved living standards, which has **enhanced the “performance legitimacy” of the *Chinese Communist Party* (CCP)** regime. (Zhao in Hsu et al eds. 2011:60)

There has long been a tendency to equate the CCP with the post-1949 Chinese state since, it is argued, the Party organization has deeply penetrated the state apparatus and the Party leadership has tightly controlled the state bureaucracy. **The PRC is therefore referred to as a ‘party-state’** – implying a type of state in which the Communist Party organization, as the core of the state, monopolizes state power over the direction and control of society. **The Constitution of the PRC recognizes the CCP as the “sole leader” of the Chinese system.** All major reform documents reserve for the Party the responsibility of making all key decisions, of checking on their implementation and of retaining the power of the appointment of individuals to every important post.

Since the 1970s however, we have been witnessing incremental but continuous changes, which have led to scholars opining that *the Party-state in China may not be as centralized, monolithic and hierarchical – or even conflict-free - as is assumed*. Nor is it helpful to see both the Party and State as synonymous. The purpose of this introduction is to provide a brief account of the State, the Party and the political system in China, which will enable a more accurate appreciation of the Planning System and Process of the People's Republic. Though outside the scope of this study, it may be useful to bear in mind that Chinese culture is crucial for understanding political and bureaucratic behavior in the PRC, as cultural factors go a long way in explaining the nature of political alliances, expectations of political behavior, attitudes towards authority relations and even the fundamental strength of political organisations.

The Chinese system is divided into three nationwide bureaucratic hierarchies – the Party, the Government and the Military. Each civilian hierarchy is spread over five major territorial entities: the National or the *Centre (zhongyang)*, the *Provinces (sheng)*, the *Counties (xian)* and the *Cities (shi)*. In the Party and Government hierarchies, these entities are organized in roughly the same way. [A fifth major territorial level of political administration is the *prefecture*, treated as “dispatched organs” of the provinces and varies in importance from province to province]. They rank below the province and above the county and serve as coordinating organs between these two administrative levels. Cities have various ranks, depending on their size and importance – three cities, Beijing, Tianjin and Shanghai, have ranks equivalent to that of a province. These and other large cities have suburban counties under their jurisdiction (Lieberthal, 1995:158).



**Party and Government structures are organized for each layer – and the Party structures always exercise ultimate authority over their government counterparts.** Thus, at each level of the political system in China, there is a full array of party and state organs, with the Party in addition having committees, branches and cells embedded within the state organs. **In principle, the Party is to make the policy and the state is to administer it – though of course in reality the division is not always so neat.**

Each territorial level has a basic organizational flow. Each has a large congress that meets infrequently but is, theoretically the most powerful body; a smaller group that meets somewhat more frequently and a still smaller group that brings together the real decision-makers at the top. Under these groups, there are administrative departments that actually run day-to-day, the various party and government organs.

### 1.1. THE CHINESE COMMUNIST PARTY

At the Centre, the major party organs are: the National Party Congress, the Central Committee, the Politburo and the Politburo Standing Committee. There is a Secretariat (which takes care of the administration) and specific departments, nominally under the Central Committee. Each **National Party Congress**, given its large size (there were 2270 delegates to the recent 18<sup>th</sup> Party Congress) and infrequent meetings, **is essentially a vehicle for announcing and legitimating *major national decisions*, rather than policies** and thus solidifies the central political tasks for the Party. The 12<sup>th</sup> Congress in 1982 for example, anointed the post-Mao reform efforts, the 13<sup>th</sup> Congress in 1987 legitimized non-state ownership and the 14<sup>th</sup> Congress in 1993 gave a major political boost to market-oriented changes. (Lieberthal, 1995) The Central Committee (CC) is a smaller body (there were 205 members in the 18<sup>th</sup> CC) which convenes infrequently and all notable leading figures heading

the Party in important places, are automatically members. But, with few exceptions, *the CC meetings (called Plenums) discuss and announce policies, rather than decide them.* Formally, each CC is chosen by a Party Congress but actually it is the Politburo, in consultation with others, that determines the list of nominees to the CC. Rarely do the nominees exceed the number of slots to be filled. The CC plenums are numbered sequentially until the next Party Congress convenes to choose a new CC.

The Politburo also functions as a committee – smaller and more powerful. It is considered as the command headquarters of the Party. Nearly all the members of the Politburo, form the top power elite. The truly powerful inner circle is the **Standing Committee of the Politburo** that meets weekly. The General Secretary – who is also the formal head of the Secretariat of the Communist Party, convenes and presides over the meetings of the Politburo and its Standing Committee. After the 18<sup>th</sup> Party Congress in 2012, the CPC Politburo has 25 members and the highest body in the CCP structure, the Standing Committee of the Politburo, has only 7 members.

## 1.2. THE GOVERNMENT

On the government side, the **National People's Congress (NPC)**, the putative legislature and the government equivalent of the Party Congress is chosen every five years and convenes annually in plenary sessions. The **NPC has a Standing Committee** that meets more frequently and has set up its permanent committees which function on a regular basis with their own hired staff. The NPC theoretically chooses the State Council headed by a premier and comprising additionally, vice-premiers, state councilors and virtually all heads of commissions and ministries. **The State Council serves as the Cabinet in the Chinese political system.** There are a number of commissions and ministries subordinate to the State Council and **most ministries head their own nationwide vertical bureaucratic hierarchies, with officers at each**

**subordinate territorial level of administration.** The State Council also has a Standing Committee, comprising a subset of these individuals.

This basic organizational structure, on both the Party and Government sides, is largely duplicated at every level of the national administrative system. The terminology changes somewhat as one goes down the administrative hierarchy, but the overall organizational chart of each territorial layer remains quite similar. The leading party bodies below the Centre are called Committees – the Politburo at the Centre becomes the Provincial Party Committee in the province, followed by the County Party Committee and so on. The government bodies are called, simply, governments (provincial government, county government etc). In addition, virtually every ministry, commission and Central Committee department heads its own national bureaucratic hierarchy that extends all the way from Beijing down through the provinces, cities, counties and so on. In some cases, the degree of centralization is high (especially in nationally significant subjects) and in other cases, the lower level units are made answerable to local territorial party and government leadership. **The duplication of both party and government structures on all the levels of the national bureaucracy creates an extraordinary complex matrix of vertical and horizontal authority.**

The vertical bureaucracies are called *lines (tiao)*, while the horizontal coordinating bodies are called *pieces (kua)* – the relationship between them is called the “*tiao-kuaiguanxi*”. This has contributed to **the peculiarity of the Chinese system, in that it has a party structure with seemingly very centralized leadership yet actually a very fragmented structure of local authority.** To manage this complex party-state, the CCP has developed various basic organizational and operational techniques and principles. (Lieberthal et al, 1992)

### 1.3. CENTRE AND THE PROVINCE/LOCALITY: FEDERALISM IN A UNITARY STATE

The PRC is a unitary state, with formal authority held by the central government. In reality, even before the economic reforms, China was decentralized to a great extent. Beginning in 1957, the Centre shared with the provinces the authority to approve projects, control industrial enterprises, plan production, allocate materials and collect fiscal revenues. Despite periodic attempts at re-centralisation, the trend since 1957 has been progressive decentralization to the provincial level.

The success of the market-oriented reforms in China cannot be divorced from the thrust of decentralization across a wide variety of spheres that unleashed potent incentives for the localities and empowered them to launch pro-growth initiatives. In the process it has successfully coped with the structural dilemma between power competition and economic efficiency in the context of ongoing national development. (Lieberthal et al, 1992) Highly centralized power in the Party Committee at each level allows the local party leading cadres to enjoy nearly absolute power over the locality they rule. Such a structure presents a dilemma for the central party authority to control the local ones. Its multiple layers of administrative structure and extremely extensive territory, exacerbate such a dilemma. On the one hand, the transitional economic reform requires the local party and government authorities to become the engine of local economic development, but on the other hand, it also amplifies their absolute power.

China's huge bureaucracy links up with the Chinese citizen at the level of the "*danwei*" or "work unit". For most this refers to the place of work – factory, research institute, ministry and so forth. For students, it is the school

where they study. For the unemployed, it is the neighbourhood “residents’ committees”. Over the past decade however, the reforms have greatly eroded the strict rules of the *danwei* system – the huge numbers of the rural migrants – the “floating population” in the cities - are not attached to any urban *danwei*.

Another interesting feature of the centre-province relations as also the Chinese developmental model, is that provinces display contrasting styles in their developmental process. The variations in their economic profiles – even among those, which have comparable conditions - has as much to do with the specific approach adopted at the provincial levels (See the case studies in chapter 4). The comparison between Zhejiang and Jiangsu, for example, makes for an interesting case study. Both have almost identical geographic conditions, an almost similar history of entrepreneurial development and both had a comparable size of the industrial non-state sector at the beginning of the reforms. Compared to Zhejiang though, Jiangsu had far more positive indicators – FDI, High-tech industrial parks (with heavy support from another FDI-heavy economy, Singapore), bank loans and massive investments. Yet it lagged behind in economic performance – per capita income – a better measure of the material well-being of the average person. Zhejiang is the richest province in terms of per capita GDP and per capita household income and the reason, simply, is that it has grown faster. Jiangsu, in many ways, represents the developmental trajectory of China as a whole – more indebted, much higher investment/GDP ratios and a higher non-performing loan ratio – fast growth but requiring massive resources to power its growth. (Huang, 2008: 263) Scholars have highlighted that Zhejiang has been a more vibrant entrepreneurial economy (a heavy reliance on private initiatives, a non-interventionist government style in the management of firms, and a supportive credit policy stance towards private firms) whereas Jiangsu was a more statist economy. The famous Wenzhou Model (Wenzhou is a city in southern Zhejiang province, hence the name of the model) is characterized by “free

development of private enterprises (mostly household undertakings), a thriving financial market based to a large extent on private financial institutions, and extensive commercial relationships with distant parts of China.” (Byrd and Lin, 1990:34) China’s most prominent sociologist, Prof. FeiXiaotong had first highlighted the underlying factors in these contrasting models in 1986, which had led to a rigorous debate among the leading Chinese economists on the respective merits of each – and an overwhelming number argued in favour of the Wenzhou model.

1.4 MAP OF PRC ADMINISTRATIVE DIVISIONS



Administrative Territorial Units of China

	Cities	Counties	Towns	Population
Guangdong	21	121	1585	105,050,000
Shandong	17	140	1857	96,370,000
Henan	17	159	2381	93,880,000
Sichuan	21	181	4672	80,500,000
Jiangsu	13	104	1300	78,990,000
Hebei	11	172	2233	72,410,000
Hunan	14	122	2426	65,960,000
Anhui	16	105	1522	59,680,000
Hubei	13	103	1233	57,580,000
Zhejiang	11	90	1346	54,630,000
Guangxi	14	109	1235	46,450,000
Yunnan	16	129	1362	46,310,000
Jiangxi	11	100	1539	44,880,000
Liaoning	14	100	1508	43,830,000
Heilongjiang	13	128	1278	38,340,000
Shaanxi	10	107	1418	37,430,000
Fujian	9	85	1102	37,200,000
Shanxi	11	119	1397	35,930,000
Guizhou	9	88	1558	34,690,000
Jilin	9	60	898	27,490,000
Gansu	14	86	1353	25,640,000
Inner Mongolia	12	101	909	24,820,000
Xinjiang	14	99	1020	22,090,000
Hainan	2	20	222	8,770,000
Ningxia	5	22	237	6,390,000
Qinghai	8	43	396	5,680,000
Tibet	7	73	692	3,030,000

Centrally Administered Cities

Chongqing	38	1012	29,190,000
Shanghai	17	209	23,470,000
Beijing	16	322	20,190,000
Tianjin	16	244	13,550,000

Source: National Bureau of Statistics of China 2011

The Chinese state has five main levels: nation, province, city, county, and town. A command given by a national ministry will travel down these levels. For example, an NDRC command to raise gasoline prices will be delivered to the provincial level, say Jiangsu province in this example. The Jiangsu provincial DRC will then give this command to the 13 cities in the province. These thirteen cities will then relay the command to the counties in their respective jurisdiction, and in Jiangsu there are a total of 104 counties.

## 2. HISTORICAL BACKGROUND

“Planning” was central to the socialist economy. It involved the drawing up of various plans and assignments for developing the economy as a whole as also for individual industries, enterprises and economic areas. The Five-Year Plan, or a general plan at the national level, is **a strategic, programmatic and comprehensive plan, which provides a foundation for the formulation of other special plans, regional plans, annual plans as well as relevant policies.** All subordinate plans have to observe the principles of the general plan. General plans at the national and provincial levels are valid for five years, with possible forecast of 10 years. The duration of local plans is flexible to meet actual needs.

Since its inception in 1953, the Planning system in China has undergone a significant change during the three different periods of economic and social reforms within the country. The first phase of reform can be classified between 1953 (First Plan) to 1975 (Fourth Plan), during which, China largely inspired by the Soviet style of economy, placed top priority on the producer goods industries and embarked on an intensive program of industrialization. Alongside, the Chinese also adopted a set of measures for collectivization of agriculture and thereby moved towards the consolidation of socialism.

The second phase can be considered to fall between 1976 (Fifth Plan), upto 2000 (Ninth Plan), although it was not until the early 1980s that the reforms, under the guidance of Deng Xiaoping and his supporters, began to take off. It led to the dismantling of the Rural Peoples Communes and the decollectivization of agriculture; the country’s economy was opened up to



foreign investments, price controls were lifted that allowed free flow of trade, and many of the small and medium state-owned industries were either privatized or contracted out.

The final phase, which brought a change in the focus of China's FYP's can be observed between 2001 (Tenth Plan) and 2011 (Twelfth Plan). During this period, the main task of the Chinese Government officials was not only to maintain the high economic growth rates, but also try to pay more attention to and play a more active role in, the social welfare of its citizens. It also gave high priority to the growing environmental concerns within China. As a result, the Guidelines of the Twelfth Plan were labelled as China's "greenest five year plans" (Jarrett & Ramsey (2011)). In recent years, not only has the methodology of China's plan formulation been modified, but the key elements were also enriched to accommodate the on-going social and economic changes. For example, since the 6th plan period (1980-1985), the Five Year Plan for Economic Development was renamed as the **Five-Year Plan for Economic *and* Social Development** and the word "plan" was replaced by "program" since the 11<sup>th</sup> plan period (2006-2010). Meanwhile, the planning process is becoming increasingly open and standardized. (WWF)

## 2.1 THE ESTABLISHMENT OF THE PRC:

### THE ADOPTION OF THE PLANNED APPROACH TO DEVELOPMENT, 1949-1976

The People's Republic of China, established on the 1<sup>st</sup> of October 1949, inherited a war-torn and ravaged, highly inflationary economy. Successful application of orthodox macro-economic policies quelled inflation,

restored fiscal balance, revived the money economy and encouraged a rapid economic revival. (Perkins, 1966) The new regime then moved to create an economic system largely modeled after the Soviet experience – with major assistance and inputs from the Soviet advisers and Soviet-trained specialists. An entirely new set of institutions were established, and **growth and development was sought to be organized around annual and five-year plans, extensive state ownership, central control over prices and material balance plans that issued specific directives governing the allocation of major inputs, products and financial flows.** The state took control of what were defined as the “commanding heights” of the economy so as to prevent foreign dominance of the economy. As in the USSR, the key plan objective was to raise domestic savings, particularly by extracting resources from the rural sector and to channel these funds toward industrial growth. (Loren and Rawski (2008:3)

The factors that assisted in implementation of such policies within the first plan were related to the providing of financial aid and knowledgeable manpower by the Soviet Union to China. A large number of Soviet engineers, technicians, scientists, together with financial and technological aid were provided to China, which ultimately played a key role in helping China achieve many of the economic and industrial goals which were set in the first years of planning. As a result, by 1956, approximately 67.5 percent of all modern enterprises were state owned, and roughly 32.5 percent were under the public-private partnership (*The First Five-Year Plan, 1953-57*).

Moreover, a solid base was laid for heavy industries like iron and steel manufacturing, coal mining and cement production, while thousands of industrial and mining enterprises were constructed, including 156 major facilities. Industrial production increased at an average annual rate of 19 per cent between 1952 and 1957, and national income grew at a rate of 9 per

cent a year(*The First Five-Year Plan, 1953-57*). Despite the lack of state investment and interest in the agricultural sector within the first plan policies, agricultural output increased substantially by averaging an increase of roughly 4 percent(*The First Five-Year Plan, 1953-57*). Moreover, by 1957, roughly 93.5 percent of all loosely structured and small private agricultural areas were collectivized, and the stage was set in order to enhance the agricultural production in the upcoming years.

Even though there was a virtually wholesale adoption of the Soviet model (to the extent that the institutions of Chinese planning generated behavior characteristic of what came to be known as “Soviet-type” economies or the ‘command plan’ economies) the Chinese made some significant departures as well. **China’s planning system was significantly less centralized and much less comprehensive due partly to the relatively underdeveloped state of the Chinese economy and partly due to Mao Zedong’s emphasis on the simultaneous development of forces and relations of production.** (Chai, 2011:116) Under his guidance, the state channelized the process of socialist construction in the Agricultural sector through a series of cooperativization and collectivization measures, culminating in the establishment of the Rural People’s Communes. In addition, management of the Industrial sector was appreciably less centralized compared to the Soviet Union, with substantial authority vested in the provincial and local Plan bureaucracies. (Perkins, 1966)

## **2.2. ECONOMIC RESULTS OF THE MAOIST ERA**

During the period 1952-1978, largely known as the Maoist period, China’s planned economy delivered mixed results. (Howe, 1978; Riskin, 1987; Naughton, 1955) Rising rates of saving and investment promoted economic

growth, despite short-term disruptions associated with the Great Leap Forward of 1957-1960 and the Cultural Revolution of the late 1960s. World Bank estimates covering 1950-1975, a period approximately coterminous with the 'Command Plan Era', show that **China recorded average annual growth of 4.2% in per capita GNP, a figure surpassed by only ten of seventy-seven non-industrialised nations, most of them oil exporters.** During these years, China's planned economy outperformed other populous developing nations, including Brazil, Egypt, India, Indonesia and Mexico, often by substantial margins. (Morawetz, 1978:19-21)

China's plan system also delivered important gains in the creation of human capital. Mortality, especially among infants and new mothers, declined and school attendance and educational attainment increased. Census data revealed an increase of slightly more than 50% in life expectancy from 42.2 (45.6) years in 1950 to 66.4 (69.4) years in 1982 for males (females). School enrollments increased at all levels; the spread of education reduced the proportion of Chinese aged 16-65, who had not completed primary school from 74 to 40% between 1952 and 1978.

Some of the significant failures included food scarcity and the average rural diets continued to fall short of basic nutrition standards. Until the start of the reform in fact, food supplies for millions of Chinese villagers were no better in the 1970s than in the 1930s. (Lardy, 1983; Bramall, 1989; Rawski, 2006). Material conditions were better for urban dwellers, who received larger food allotments, benefited from privileged access to government-funded education, health-care, housing and pensions. Substantial differences in income and quality of life favoring urban dwellers forced the regime to curtail migration to the cities by reviving China's traditional system of household

registration (*hukou*) and by instituting tight controls over the distribution of food-grains, urban housing and other consumer essentials.

Despite the rising output, in the perspective of the Chinese Communist Party leaders and government officials, the Chinese economy suffered from the inefficiencies associated with the Soviet-style central planning; emphasis on quantity at the expense of quality and assortment, focus on investment goods rather than consumer products, neglect of innovation and customer requirements, excessive vertical integration, plan-related seasonal fluctuations in output and investment and large inventory accumulations. (Rawski, 1980) Underdevelopment of services, weak incentive-system and China's isolation from the international economy (exacerbated by a US-led partial trade embargo) further aggravated these weaknesses and enlarged the gap between achievement and potential. A quarter-century of centralized planning had left China's economy saddled with multiple inefficiencies. Although China's leaders valued material progress, consideration of national defense and ideology frequently trumped economics during the plan era. The plan system had become associated more with stagnation than growth. With both the volume and direction of sales mandated by official fiat, producers experienced neither the opportunity to expand through their own initiative nor the threat of being eclipsed by rival suppliers. It thus failed to generate the automatic, decentralized pressure for improvement that suffuses a market system. (Loren and Rawski (2008:7)

### 2.3 RETREAT FROM COMMAND PLANNING, 1979-2000

After the death of Mao Zedong in 1976 and the ouster of the Gang of Four, Deng Xiaoping lent his weight behind the general widespread

consensus for economic change, leading to the unfolding of massive economic reforms within China that ultimately played an important role in reshaping the policy making and planning after 1976. Two economic issues stood behind this consensus. Although China's economy had performed well compared to low-income nations worldwide, China's standing within East Asia was weak. Japan and South Korea had raced far ahead, as had Taiwan and Hong Kong, small entities compared to China. Secondly, the economic dislocations and political upheavals in the wake of the Cultural Revolution underpinned Deng's decision to shift the party line from "continuous revolution to economic development". (Kou in Hsu et al. 2011:168). The political system in China may be said to rest on an informal – but real – bargain between the party-state and the people: citizens acquiesce in the one-party rule in return for the promise of prosperity and national prestige. As a result, policy elites at all levels focus on promoting economic growth with an intensity that has been unparalleled in human history (See Appendix II).

In December 1978 at the Third Plenum of the Eleventh Central Committee, it was decided that the system and methods of economic management in China would be transformed through expanded economic cooperation with other countries, special efforts would be made to adopt the world's most advanced technologies and equipment, and scientific and educational work would be greatly strengthened in order to meet the needs of modernization (Tisdell, 2009). The four areas where the focus of modernization was targeted during this period of economic reform were related to agriculture, industry, national defence and science and technology, viz, the Four Modernizations. As a result, policies such as developing trade, making use of foreign direct investments, introducing of advanced technology in order to meet domestic and external demands, and further securing a balance between fiscal revenue and expenditure and credit, were some of the

many new policies that were implemented in the Five Year Plans subsequent to 1976 in China.

## 2.4. ROLE OF THE MARKET

China's leap from the moderate growth attained during the 'command plan' era, onto this new path of rapid growth, from poverty to growing prosperity, from village to city, from public to private ownership and from isolation to global engagement, has been the outcome of a series of gradual, incremental and yet momentous shifts and transitions, at the core of which has been the shift from 'plan' to 'market'. The fundamental theme for China's reform was the transition from a centrally planned command economy to a market economy (Wu, 2005). However, this "market orientation" was gradually established in the late 1980s (Ibid). China adopted a policy which kept the state sector running and switched its main effort to non-state sectors for new growth (Ibid). An incrementalist approach to the reforms, termed as '*crossing the river by feeling the stones*', was adopted so that the easier problems could be solved first, where the gains were likely to be most rapid and where the benefits would outweigh the costs; this helped in developing and maintaining a popular base for the reform programme (Harding, 1987).

Since China's Reform and Opening policy started in December of 1978 the market has played a larger and larger role in regulating economic activity, and **the role of the plan has shifted from "micro-economic intervention" to "macro-economic management"**. Chinese policy makers in the mid-1970s had begun to realize that the plan and the market have very important roles in the economy and policies should be tailored to take advantage of the strengths of both the market mechanisms and government economic intervention.

However, the study of the phenomenon of market cannot be done without simultaneously understanding the changes made in the model of 'Command Planning'. Even as the Chinese planners began engaging with 'market forces', they did not move away from the Plan model. A dual-track approach was adopted, placing both on a parallel track, and gradually loosening the controls of the Plan to give more space to market. Thus, it has to be emphasized that in case of China, the study of either Plan or Market is incomplete without the other – one has to see both in a holistic perspective (See Appendix VI).

According to the architect of China's reforms Deng Xiaoping, planning and market are both means of developing the productive forces. So long as they serve that purpose, they should be made use of; if they serve socialism they are socialist; and if they serve capitalism they are capitalist. It is not correct to say that planning is only socialist, because there is a planning department in Japan and there is also planning in the United States (Deng, 1987).

As increasing attention was given to integrate the market mechanism within the economy and align the Plan in that direction, the Chinese adopted what was called "**Guidance Planning**". This meant a flexible type of planning in which planners set suggested targets for the micro units (state enterprises, agricultural producers, etc) on the basis of desired aggregate output goals and use "economic levers", i.e., prices, credit, taxes, interest rate, exchange rate, state purchase orders, etc) to induce compliance; the plan targets were not binding, unlike the compulsory quotas of the traditional "mandatory planning", as the micro units could adjust the plan figures in accordance with their own conditions or with changes in the market (Hsu, 1986).



The relationship between planning and market is increasingly seen as complimentary and not antithetical. In fact, in the Eleventh Five-Year Plan, the Chinese term of *jihua* (mandatory planning) has been replaced by *guihua* (guidance planning); *guihua* is increasingly used to describe the functions of planning agencies than that of the government (Fan, 2006). More specifically, the shift exemplified three changes in the function of Five-Year Plans:

- Rather than concerning itself with detailed planning of the economy, *the state sees itself as being responsible for identifying the macro, broad directions;*
- The number of quantitative targets in the Plan has been significantly reduced and its *emphasis shifted to broad principles and development priorities;*
- The Plan gives a *higher priority*, compared to past plans, *to improving citizens' overall well-being* including health, education, employment and environment. (Ibid)

A key reason cited by Chinese scholars for the continuing relevance and role of the 'Plan' – and therefore the government - in the economy, is to overcome market failures. The government, and thereby the plan, should promote stable economic growth, expand employment, ensure economic security, decrease the rich-poor income gap, protect the environment, and provide social security (Wu, 2009). However, the government should no longer have a role in microeconomic management as it once had under the earlier five-year plans.

Chinese scholars and government officials realized that successful government intervention in the economy was limited by the two facts: first, that economic predictions were not very precise as there were too many unknown variables in reality to account for; and second, that information asymmetries created hurdles in the attempt to create successful policies. This

means that price controls on all but a few key commodities and utilities have been done away with and that production quotas are no longer set for nearly all industries. Instead the government now relies on market mechanisms to regulate industries and business rather than rely strictly on supply side policies (Ibid).

The government has also done away with hard growth targets and strict production quotas, and mainly replaced them with strict social development targets (*China's Soft Science*, 2010). The role of the government is now seen as that of a macro economic regulator that provides essential public goods. By adopting this new economic role the government hopes to both prevent market failures in the future and avoid the government planning failures of the past.

The effect of guidance planning has been so much that gradually, the Chinese now increasingly see plans as guiding principles and not compulsory/mandated procedures. This came across clearly in the interactions with officials and academics during the field visit to China. Today, plans are closely related to the market. There is a great deal of field research and analysis/predictions for the future. Tasks/goals are set, keeping the domestic and global situation in mind and there is a provision for adjusting the targets in either direction if the situation so warrants.(Meeting with the Guangdong Development and Reform Commission, August 2013). For instance, in the 12<sup>th</sup> national Five-Year Plan, the goal was set of 8% GDP growth. As mentioned earlier, if the target appears unrealizable, the government can coordinate/influence the requisite adjustments through the market. As it has transpired, a Government Work Report, distributed just ahead of the annual session of the National People's Congress in March 2013,

scaled down the GDP growth target from 8% down to 7.5%. ([http://news.xinhuanet.com/english/china/2012-03/14/c\\_131466703.htm](http://news.xinhuanet.com/english/china/2012-03/14/c_131466703.htm))

In a measure that further underscores the significance accorded to the market, the entrepreneurs and private enterprise managements are invited to seminars/exchanges organized by the provincial government, to share their opinions on the plans. They can also express their ideas through public channels and websites. The Industrial and Commercial Association (or All China Federation of Industry and Commerce, which also has a provincial federation for Guangdong) also presents its report to the provincial government from time to time (Meeting with Guangdong Development and Reform Commission, August 2013).

There were many factors that played an important role in the coming of the economic reforms and a change of policies in China after 1976. In the Rural Sector, beginning in 1979, the Commune system was dismantled selectively and replaced by the Household Responsibility System (HRS). Under this system, state land was divided into private plots, which allowed households to contract land, machinery and other facilities from the collective organizations. The aim of the new agricultural system was to keep a basic unified management of the collective economy, as well as contracting out land and other goods to private households. In addition to this, farmers and individual households could now make their independent decisions, and after paying the required share to the state, peasants were free to sell their surplus production at market rates. This provided an extra motivation for the peasant in order to increase his production, and as a result not only agricultural production increased but so did the living standards of the rural households. With the farm production being returned to peasant families and with agricultural surpluses increasingly regulated by the market rather than by the

State bureaucracy, the rural communes lost most of their economic functions and were finally abolished in 1984.

The other thrust area of the reforms was with regard to Urban Reforms. In contrast to the former socialist countries in Central and Eastern Europe, China did not privatize its state-run enterprises in the first instance. The justification lay in the Marxist framework of the superiority of socialist ownership of the means of production (Bohnet, 1997). This was a sensible decision due to the fact that rapid privatization of the government enterprises would not only have created an immense burden on financial resources to modernize plant, facilities and production methods, but would also have triggered a steep increase in urban unemployment (Ibid). But in a matter of five years, from 1979 to 1984, the following steps were planned and put into effect to end price control, ownership control and geographic control:

1. Establishment of Special Economic Zones (1979),
2. Establishment of 'two systems within one country' (1980)
3. Permission of foreign investment and tourism (1980),
4. Abolition of administrative barriers across regions (1980)
5. Establishment of duty contracts for managers (1981)
6. Replacement of 'profit submission' with formal taxes (1981),
7. Deregulation of price control over all consumer goods (1982),
8. Deregulation of procurement of all rural products (1983)
9. Permission to employ foreigners (1983)
10. Deregulation of geographic control over foreign businesses (1984)

Even after Deng Xiaoping's death in 1997, economic reforms continued under the guidance of the General Secretary, Jiang Zemin. Between 1997 and 1998, large-scale privatization occurred, where a significant number of

the small and medium loss-making state enterprises were liquidated and their assets sold to private organizations. Private business activities were also allowed to operate, and price flexibility was also increased that led to a gradual but steady expansion of the service sector since the 1990s. By the coming of the millennium, Jiang Zemin ordered the reduction of tariffs and trade barriers, which further provided the impetus for the high economic growth, leading to the rise of a new economic power, China (See Appendix VII).

## 2.5. TOWARDS BALANCED AND SUSTAINABLE GROWTH,

### 2001-2011

From 2001 till the coming of the Twelfth Guideline in 2011, the Chinese Government has somewhat shifted its focus and now plans to channelize its economic growth towards the welfare of its people and to safeguard the environment from further damage. The Twelfth Guideline laid out a road map that included a specific list of issues that need to be rectified in the upcoming years. These issues are: raising domestic consumption, offering better public healthcare spending and services, and further addressing social challenges of increasing income disparity between the different members of the society.

After establishing itself as an economic power, China has now realized that it will now have to develop a new policy framework that will help to move away its focus from “growth at any cost”, towards a more “balanced” and “sustainable growth pattern” (Jarrett & Ramsey, 2011). Decades of double digit economic growth, together with an inefficient use of natural resources

has made a huge negative impact on the environment in China. In order to address this, the plans implemented in the Twelfth Guideline calls for measures to reduce pollution, increase energy efficiency, and further ensure a stable and clean supply of energy. If China can manage to address these social concerns as well as maintain a good level of economic growth, then the Twelfth Plan may as well be remembered as one of the most significant five-year plans in the history of the Chinese planning process.

On the other hand there is of course the other aspect related to the lacunae in the existing institutional framework/system, ie the lack of checks and balances, described as the “six-no’s” (*liuwu*):

- No independent auditor to monitor the economy;
- No independent central bank to regulate the monetary and capital markets;
- No central agent to control tax collections;
- No independent auditor to monitor unauthorized expenditures;
- No independent voice of shareholders to veto executives’ decisions;
- and
- No independent press to guard public interests.

In a broad sense, **the Chinese system could be characterized as one in which “government ownership and investment play a strong role in the economy but in a practical and flexible way.”** However this characterization does not make clear, what role, if any, the government is playing in actually steering the economy to specific outcomes. Planning is ubiquitous in China, with seemingly every government organization having long-range targets and objectives. It would however be well near impossible to search for a unified vision of the development of the economy that in any way predicts specific

outcomes. The 11<sup>th</sup> Five-year Plan called unambiguously for a more “balanced” economy with greater attention to consumption and the quality of life, but this did nothing whatsoever to predict the actual outcomes that were observed between 2005-2008. The economy is clearly not planned in this overall sense – so it must be that the planning exercises are part of the adaptation of individual government agencies and firms to the continuously evolving signals of the market economy. In this sense, “planning” must be closely related to “experimentation”, even though the two are usually thought to be polar opposites (Heilmann, 2008).

Another aspect that has seen enormous debate – and rather controversial at that – has been the top priority that the PRC had placed on the investment in building infrastructure. At its peak, in the years between 2001 and 2006, more was spent on roads, tracks, airports and other fixed assets than had been spent in the previous fifty years put together. (*The Economist*, 2008). Nearly every corner of the country is being linked, regardless of soil, latitude or climate conditions. *A contrast with India in this respect is instructive: China’s high investment rate is one of the key characteristics that differentiate it with India. China consistently builds infrastructure out ahead of demand; India only slowly builds infrastructure as bottlenecks develop. As a result, the return to an individual infrastructure investment in India is very high – probably much higher than in China – since by the time a project is built, it has become a response to a clear demand and produces immediate and enormous saving. Individual infrastructure investment decisions are probably made more efficiently in India, because they are based on such clear demand signals. But the Indian policy imposes large costs on other economic actors as they cope with bottlenecks and delays throughout the economy.* (Naughton in Hsu et al. 2011:85)

### 3. THE PLANNING SYSTEM

China's planning system is currently divided into three tiers and three categories. By administrative tiers, there are national plans, provincial plans, and local (city and county) plans. By target and function, there are general plans, special plans, and regional plans. In practice, however, the number of planning tiers can exceed three. For example, governments of townships and development zones sometimes make their own special or regional plans. Cross-regional plans are not uncommon as well. By function, there are also other plan categories such urban-development plans, land-use plans and corporate development plans.

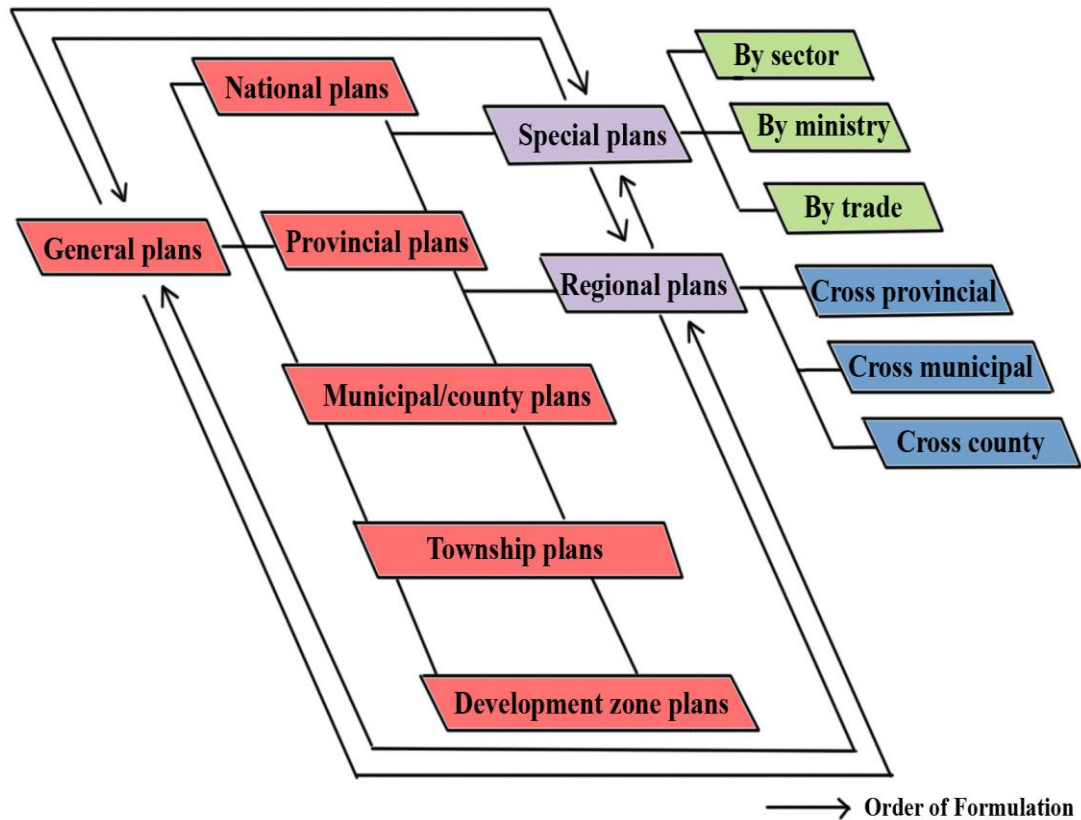
**The Five-Year Programme for Economic and Social Development** is the most important plan at the national level in China, which sets general targets of economic and social development for a period of five years. **Special plans** are more detailed to address specific or individual areas of the general plan. **Regional plans** deal with issues of regional development or the spatial distribution of major state-funded capital investment projects. A general plan normally includes the following sections: review of the past plan, key issues to be addressed in future, external environment faced by future development, targets and policies for the future five years in general and in particular areas (such as economy, science and technology, education and human development, population, resources and environment, reform and open-up, people's living standard, moral and cultural progress, democracy and the legal system, and national defense), and the procedures of plan implementation.



### 3.1 RECENT CHANGES IN THE FORMULATION OF CHINA'S FYP

- The Five-Year *Plan* was renamed as the Five-Year *Program* since the 11th plan period;
- The core of plan formulation **shifted from setting growth targets to putting forward development strategies**. In line with the strategies, policies are made to meet the needs of governance reform and public goods provision. For environmental protection purposes, binding targets are introduced to save energy and reduce greenhouse gas emission;
- A simple general plan is expanded to a comprehensive plan set, with **special long-term plans and spatial plans** playing an increasingly important role. Efforts are made to keep plans of various kinds inter-consistent and mutually complementary.
- **De-centralized decision-making** is promoted to give local governments more autonomy in the formulation of local plans.
- The planning process is changed from a closed one to an open one, with a **high degree of transparency and public participation**. For example, as many as 160 pre-study projects of the 11th Plan were contracted out to institutes at home and abroad. An office was set up at NDRC to collect suggestions and opinions from the public (See Appendix V).
- The planning process and procedures have become **increasingly standardized**.

### Flow chart of plan formulation in China



Such as 11th Five-year plan on Education Development, 11th Five-year plan on Environment Protection, National Program for Medium-to-Long-Term Scientific and Technological Development (2006-2020)

Source: World Wildlife Fund

### 3.2. THE NATIONAL DEVELOPMENT AND REFORM COMMISSION (NDRC)

The NDRC's predecessor was called State Planning Commission (SPC), which was established in 1952. The SPC was renamed the State Development Planning Commission (SDPC) in 1998. In 2003, the Council Office for Restructuring Economic System (SCORES) was merged with the State Economic and Trade Commission in 2003, to set up what is now known as the NDRC.

**The NDRC develops, executes and monitors the Five Year Plans.** Except for a gap of two years (1963-65), China's Five Years Plans have been developed and implemented on a continuous basis, since its beginning in 1953 (First Plan) to the implementation of the Twelfth Plan that came up very recently in 2011. The Five Year Plans of any country including that of China can be looked as a somewhat complex collection of government documents that not only include the previous implemented plans and hundreds of policy initiatives, but also the steps that can be taken in order to improve upon them in future policies. Therefore, **the NDRC plays a key role in the formulation of the FYP document, which serves as an overarching vision for and of, the entire country (Lim, 2011).**

Moreover, studying these documents relating to the most current Five Year Plan becomes critical and essential for government officials, legislators, and for state functioning enterprises, since it plays a huge impact in influencing the amount of government spending within certain areas of the society or economy. In terms of leadership, XuShaoshi presently occupies the seat of the Chairman in the NDRC.

Besides the General Office, there are, additionally, 32 departments under the NDRC, each of which is assigned a set of different tasks. The General Office and the 31 departments of the NDRC and their basic functions are:

### **3.2.1. DEPARTMENTS AND PERSONNEL**

**General Office:** is in charge of day-to-day operations of the Commission, including processing of documents, maintaining confidential documents and

communications, and more importantly, regularly monitoring the activities of the other specific departments of the NDRC.

1. **Department of Policy Studies** – is responsible for drafting important documents, organizing studies on key issues that concern the national economic and social development and also the international economy. It is also assigned the duty of news release and work related to information guidance.
2. **Department of Development Planning-** is responsible for recommending strategies in relation to national economic and social development and productivity allocation by putting forward objectives and policies that will aim to fulfill medium and long-term national, economic and social development goals of the country.
3. **Department of National Economy** – is responsible for monitoring and analysing the domestic macro-economic situation and international economic dynamics by providing macro-economic forecasts. It is further responsible for carrying out studies on economic aggregate balance, identifying macro-economic regulation objectives and providing recommendations on the exercise of various economic tools and policies.
4. **Department of Bureau of Economic Operations Adjustment** - is responsible for monitoring and analysing the performance of the national economy by putting forward corresponding policy recommendations. It further has the responsibility of coming up with solutions if and when a problem arises in any of the economic operations.
5. **Department of Economic System Reform** – is responsible for carrying out studies on important issues that are concerned and related to the

economic system reform. Moreover, it is responsible for coordinating and coming up with solutions to any major problem, which arises during the process of an economic system reform.

6. **Department of Fixed Asset Investment** -is responsible for monitoring and analysing all fixed asset investment activities, proposing the regulation objectives, and recommending policies and measures that are concerning the overall scale and structure of fixed asset investment.
7. **Department of Foreign Capital and Overseas Investment**- is responsible for analysing the dynamics of international capital, as well as managing foreign capital utilization and overseas investment by putting forward objectives and policies, which would optimize the utilization of foreign capital and overseas investment in China.
8. **Department of Regional Economy**- is responsible for drafting regional economic development plans and recommending major regional economic development policies by coordinating policies for land improvement and land development. Moreover, the department has the further responsibility of formulating plans for water resource balance, conservation of environment, and for ecological improvement.
9. **Department of Western Region Development**- is responsible for formulating strategies, plans, and key policies in order to promotewestern region development in theareas of infrastructure development and ecological conservation.
10. **Department of Northeastern Region Revitalization**– is responsible for planning and strategizing in order to improve the condition of the industrial bases in Northeast China.

11. **Department of Rural Economy** – is responsible for recommending development policies in the agricultural and rural sectors of the economy, and further coming up with solutions to the concerns of the rural members.
12. **Department of Basic Industries** – is responsible for coordinating energy and transportation development plans with national economic and social development programs.
13. **Department of Industry** – is responsible for analysing and coming up with solutions for addressing major concerns, which hinder the development and growth of the industry and the service sectors.
14. **Department of Hi-Tech Industry** – is responsible for analysing the dynamics of hi-tech industry and technological development, and further coming up with ideas on how to promote the involvement and usage of the advanced technologies in major industries.
15. **Department of Resource Conservation and Environmental Protection** – is responsible for comprehensively analysing important and strategic issues, related with the coordinated development of economy, society, environment and resources.
16. **Department of Climate Change** – is responsible for assessing the impact of climate change on social and economic development. The department is further responsible for organizing and formulating key strategies that will assist in dealing with issues related to climate change.
17. **Department of Social Development** – is responsible for putting forward comprehensive social development strategies relating to family planning, culture, education, healthcare and civil affairs of the local population.

18. **Department of Employment and Income Distribution** – is responsible for examining the situation of employment, human resources, income distribution and social security, by conducting policies, which will ultimately encourage employment opportunities, adjust income distribution, and balance out the high economic growth with improvement in social security sector.
19. **Department of Trade** – is responsible for monitoring and analysing both domestic and international markets. The department is further assigned the task to aggregate balance between exports and imports of goods and commodities.
20. **Department of Fiscal and Financial Affairs** – is responsible for analysing the capital balance of the whole society by studying fiscal and monetary policies, and issues related to fiscal and financial system reforms.
21. **Department of Price** – is responsible for forecasting and predicting price change in the market, recommending solutions and coming up with reform plans for price adjustment. It is further assigned the task to organize cost investigation that concern or are related to major agricultural products and other similar commodities.
22. **Bureau of Price Supervision and Anti-Monopoly** – is responsible for drafting administrative laws and conducting price supervisions and inspection.
23. **Department of Laws and Regulations** – is responsible for drafting laws and regulations by carrying out validity auditing of relevant regulatory documents.

24. **Department of International Cooperation** –is responsible for maintaining good working relations between NDRC and international organizations, foreign government agencies, and foreign institutions.
25. **Department of Personnel** –is responsible for managing personnel affairs, organization planning, and for team construction of the NDRC and its affiliated institutions.
26. **Office of National Economic Mobilization** –is responsible for formulating development plans and programs for national economic mobilization, and further studying relationship between national economic mobilization, national economy and national defence.
27. **Office of Key Project Inspection** –is mainly responsible for inspecting and regularly tracking the implementation of key national projects.
28. **NDRC Party Committee** – is responsible for the work related to the Party affairs within the NDRC, and its affiliated State Bureaus and institutions.
29. **State Bureau and Material Reserve** –is responsible for formulating national strategic material reserve strategy, by planning, organizing collection, stockholding, and day-to-day management of the national strategic material reserve.
30. **State Grain Administration** – is responsible for studying and putting forward medium and long term strategies/goals for national grain macro-management, balancing of grain distribution, planning for importing or exporting of grain, and further planning for safe storage of grain.



31. **National Energy Administration (NEA)** – is responsible for formulating energy development plans and industrial policies, and for promoting institutional reforms in the energy conservation sector.

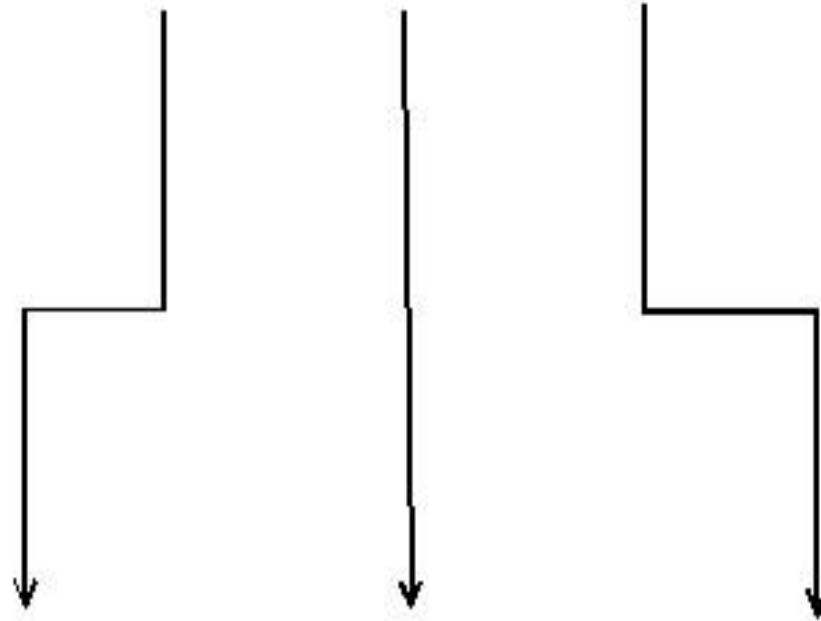
32. **Bureau of Retired Officials** – is responsible for looking into the welfare of the NDRCs officials, and further guiding the relevant work of NDRC's affiliated institutions.

(en.ndrc.gov.cn).

**Charts 1 and 2 below display the 32 departments of the NDRC and their administrative personnel**

Chart 2

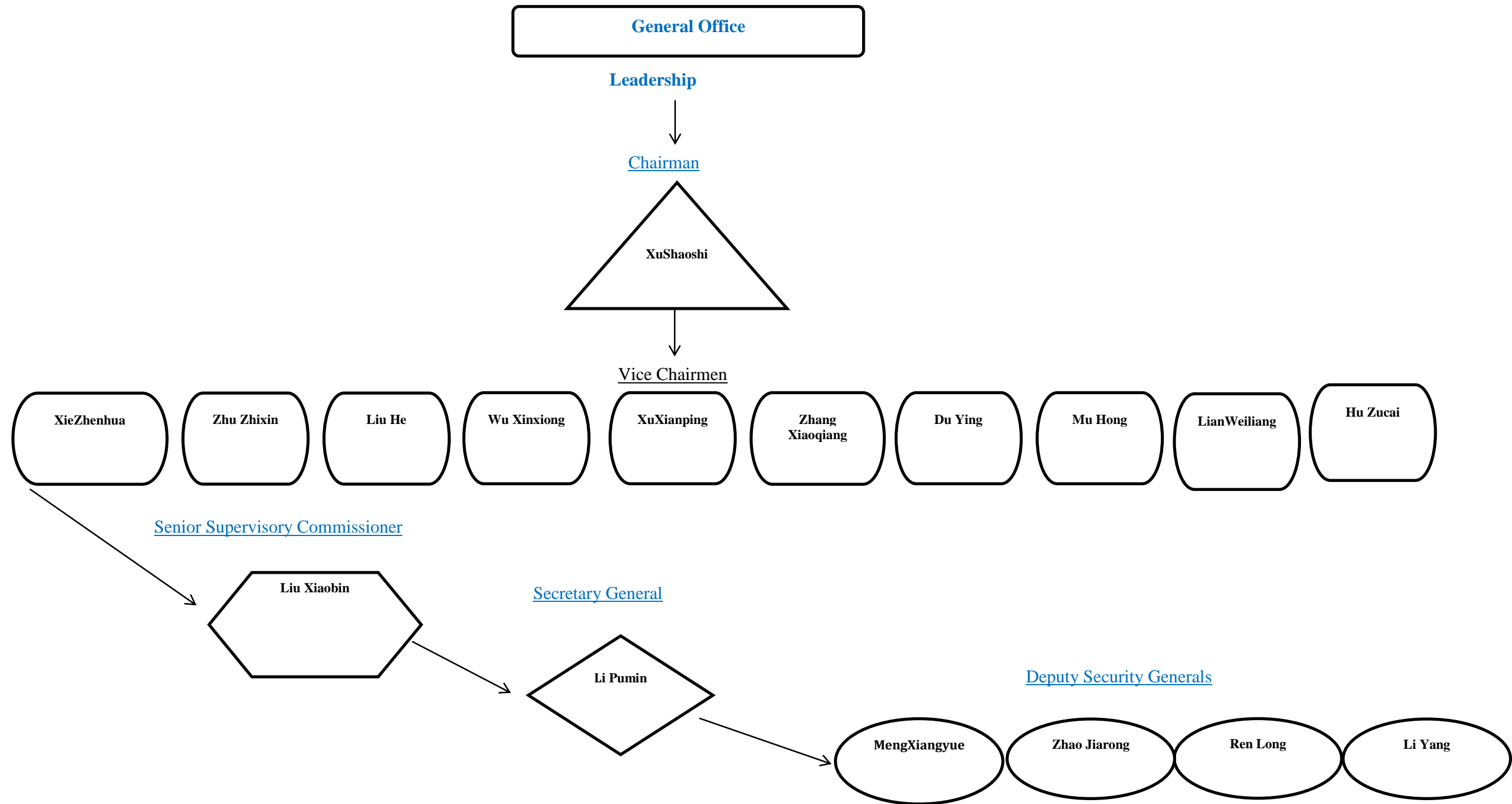
Departments of the NDRC



Policy Studies	Development Planning	National Economy	Economic Operations	Economic System Reform	Fixed Asset Investment	Regional Economy	Foreign Capital and Overseas
Western Region Development	Northeastern Region Revitalization	Rural Economy	Basic Industries	Industry	Hi-Tech Industry	Resource Conservation and Environmental	Climate Change
Social Development	Employment and Income Distribution	Trade	Fiscal and Financial Affairs	Price	Price Supervision and Anti-Monopoly	Laws and Regulations	International Cooperation
Personnel	National Economic Mobilization	Key Project Inspection	NDRC Party Committee	Material Reserve	Grain Administration	National Energy Administration (NEA)	Retired Officials.

Chart 2

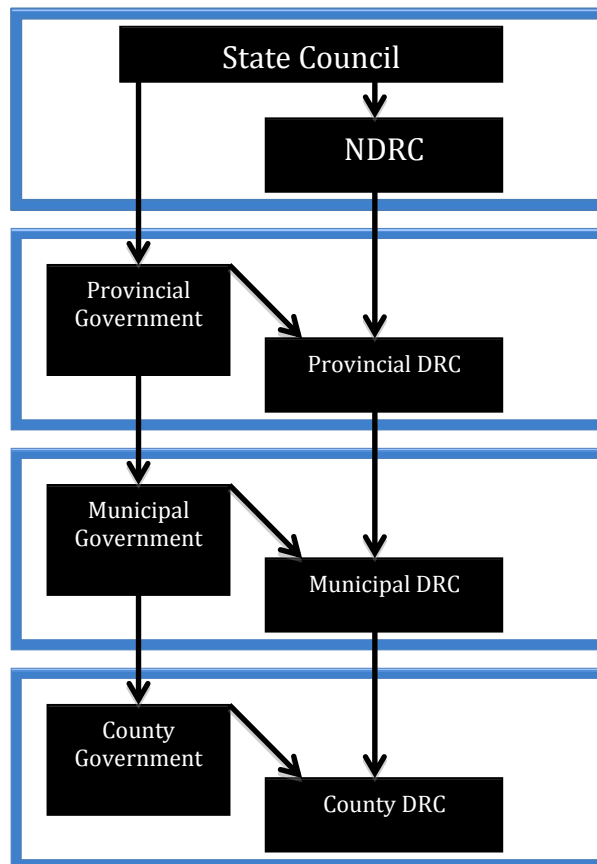
National Development Reform Commission: Administrative and Leadership Personnel



### 3.2.2. NDRC STRUCTURE

#### AND POSITION IN THE CHINESE STATE

Chart 3



The NDRC is directly under the State Council, which is headed by the Chinese premier, Li Keqiang. This puts the NDRC at the same bureaucratic level as other ministries and commissions like the Ministry of Finance, the People's Bank of China, and the Ministry of Justice ([www.gov.cn](http://www.gov.cn)). However, the influence of ministries depends on national priorities and the personalities who lead these bodies, and because the NDRC is tasked with national economic development and is staffed by powerful Party members it has more

power than most other ministries. The previous chief of the NDRC now sits on the second most powerful body in the Chinese Communist Party (CCP), the Politburo (news.xinhuanet.com), and the current NDRC chief is a member of the third most powerful body in the CCP, the CCP Central Committee, and sits on the State Council as the Chief of the NDRC (xushaoshi.ndrc.gov.cn).

The NDRC consists of 32 departments and offices whose **functions range from adjusting the prices of key commodities to formulating large regional development plans**. The NDRC and its departments and offices are staffed by 1029 (ndrc.gov.cn) highly trained bureaucrats, and it is estimated that the NDRC and its regional offices employ more than 30,000 bureaucrats in total (www.businessweek.com).

The policy making process for the NDRC is not simple or straightforward. The five-year plans that the NDRC creates and the lesser economic policies it enacts are the results of **a complex policy making process that takes into the account the interests of many actors of varying influence**. The most important actors are those within the Politburo Standing Committee, the most influential body in Chinese politics, consisting of the 7 top members of the Chinese Communist Party. The Chinese Premier is a member of this seven-member body and is ranked second, behind the Chinese president who is also the chairman of the Party. The Prime Minister heads the State Council - the body that includes the chiefs of the major Chinese ministries and government bodies, including the NDRC. Policies created by the NDRC follow the general principles set out by the president, prime minister, the other members of the Politburo and the State Council. After taking into account the policy recommendations and principles of the most senior government officials the NDRC can begin to shape general

outlines of its plans, but there are still other actors who have their say and whose influence can impact policy making.

At first glance it may seem as though **having other actors influence the policy making process** may lead to suboptimal policies. However in China this process **plays a vital role in ensuring that enacted policies become implemented policies**. This is because policies created at the central level will meet with resistance if they don't take into account the interests of other stakeholders at various levels of government. For this reason NDRC officials will seek consensus among different groups before enacting a policy.

The NDRC's authority extends down to the provincial, municipal, and county development and reform commissions. As well as taking orders from the National Development and Reform Commission, these provincial and lower level commissions are also under the jurisdiction of their respective local governments. This gives local DRCs opportunities to implement provincial economic policies within their jurisdiction. However, they must still obey the directives of their superior DRC. Because local DRCs take orders from both their respective level of government and their superior DRC there is a **need for policy coordination and consultation to ensure that national policies take into account the needs of local governments**. Without a certain amount of intra-governmental cooperation and consultation it's likely that resistance to policies could develop at different levels of government, which could limit the efficacy of economic policies ([www.china.com.cn](http://www.china.com.cn)).

Once directives from a superior level reach a lower DRC, the latter will coordinate with local industries and other lower level government bodies to ensure policy directives are implemented. **National policies are often broad in**

**scope, allowing lower level governments and DRCs space to adjust policies to fit their particular social and economic circumstances (Ibid).**

Aside from the Chinese state, the NDRC is also highly influenced by the CCP. The structure of the CCP runs roughly parallel to the structure of the state, meaning **the CCP can easily exert its influence at different levels of government, including the NDRC and lower level DRCs.** This is another manner in which policy makers can seek consensus on particular policies. This also helps in effective implementation of policy because the Party can use internal measures to discipline members that don't comply with government policies.

Although the structure of the NDRC seems quite rigid, it is not so in practice. As mentioned before, policies are drafted and implemented with consultation from other stakeholders in the Chinese government and economy (Heilmann Sebastian & Shih Lea, 2013). **Once a policy is decided upon, the structure of its implementation will differ from that of other policies.** This is because the NDRC's mandate covers such a broad range of issues that the implementation of a policy dealing with clean energy will necessarily differ from a policy dealing with price adjustments **because of the different state and industrial actors involved.** This process is further complicated by the fact that local governments are given the freedom to alter policies, to a certain degree, so that they fit local conditions and take into account the needs of local stakeholders. The complexity and consultative nature of the NDRC and lower level DRCs with lower level governments is discussed below in sections three and four.

When it comes to finances, the NDRC does not possess its own funds (Xingyu Ma, Interview, August 2013). Rather, funds for five-year plans come

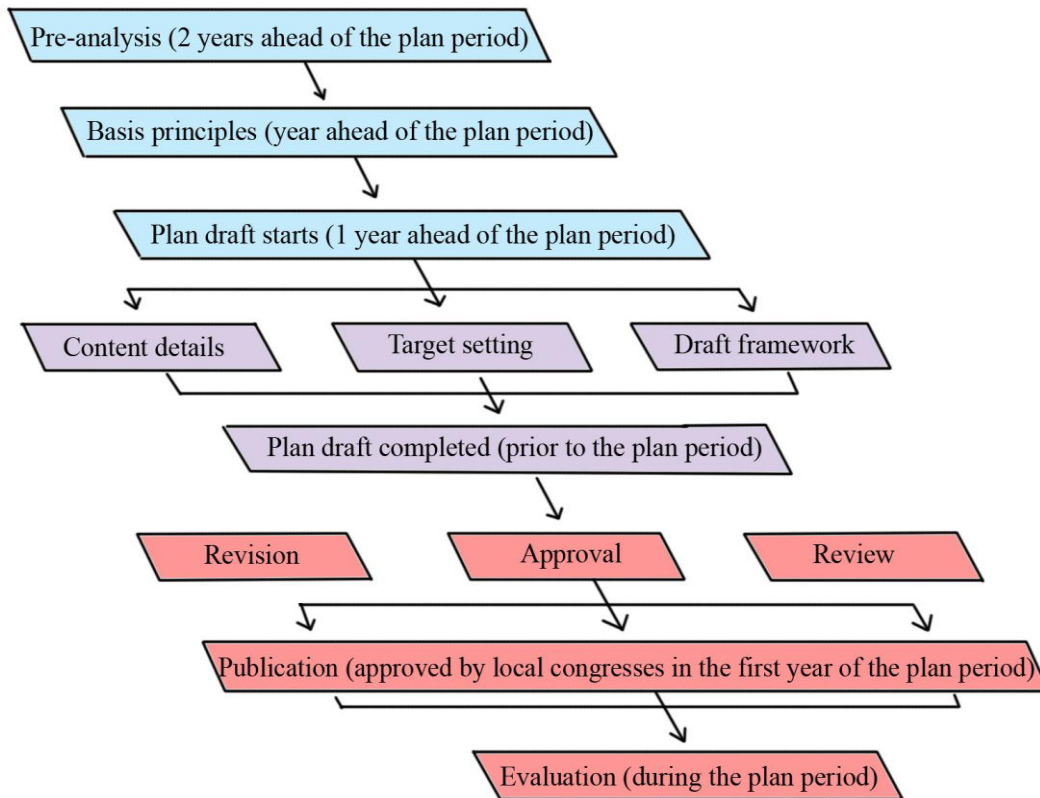
from the Ministry of Finance. Individual ministries that would like to undertake a particular project as part a five-year plan send the proposals to the NDRC,during the lengthy process of consultations for the five-year plan policies. If the NDRC approves of a particular ministry's plan then the Ministry of Finance will disburse funds to the concerned ministry. (ShenMingming, Interview, 17 August 2013). In terms of financing, the NDRC mainly approves or rejects funding proposals.

### 3.2.3 THE FORMULATION OF THE GENERAL PLANS

Governments at the national, provincial, and local levels are responsible for organizing the formulation of general plans at the corresponding level, while the Development and Reform Commissions are responsible for plan drafting at the same level. Two years prior to the publication of a Five-Year plan, the NDRC starts to identify major issues relevant to future development, set growth targets of key areas, estimate related ratios and rates, and undertakes feasibility appraisal of major state-funded capital investment projects. As a result, a series of basic principles are put forward for the economic and social development during the plan period. Under the guidance of the State Council, NDRC works on a plan draft in line with the principles, with the assistance of other ministries and departments. The draft is then reported to the National Congress for approval. Finally, the approved plan is published by the State Council for implementation. The plan implementation is subject to monitoring and supervision of relevant authorities. NDRC organizes an interim evaluation at the mid-plan period as well as a final evaluation at the end of the plan implementation.



## Flow chart of the formulation of general/national plans



Source: World Wildlife Fund

### PRE-ANALYSIS

Generally, the pre-analysis starts two years prior to the commencement of the new plan. Its main tasks include:

- a) analyzing the major issues relevant to economic and social development;
- b) setting the growth targets of national economy and key areas, and estimating related ratios and rates; and,
- c) undertaking feasibility appraisal of state-funded major capital investment and infrastructure projects. The process can take different forms such as internal investigation, external contracting, public hearing and discussion, and calling for suggestions.

## PLAN DRAFTING

Upon a notice of NDRC on plan drafting, relevant ministries and departments put forward plan suggestions based on their own circumstances. NDRC works out first area-specific plan drafts based on these suggestions, and then a general draft framework after negotiation, coordination and overall balancing. Major plan targets of economic and social development will be listed in the framework.

## REVIEW APPROVAL AND REVISION

The completed plan draft is subject to review and appraisal of officials at different levels, from ministries to the State Council and to the Party Central Committee. The final version will be reported to the National Congress for approval after two rounds of substantial review and revision. The plan becomes a legally binding document once approved by the National Congress, the country's highest authority.

## PUBLICATION AND IMPLEMENTATION

Once the Five-Year plan is approved by the National Congress, the State Council takes the responsibility to organize the plan implementation by allocating plan tasks to governments and departments at various levels. A sound organization is essential to the success of plan implementation, which includes steps such as task allocation, social mobilization, coordination and information management.

## MONITORING, SUPERVISION, EVALUATION AND EXAMINATION

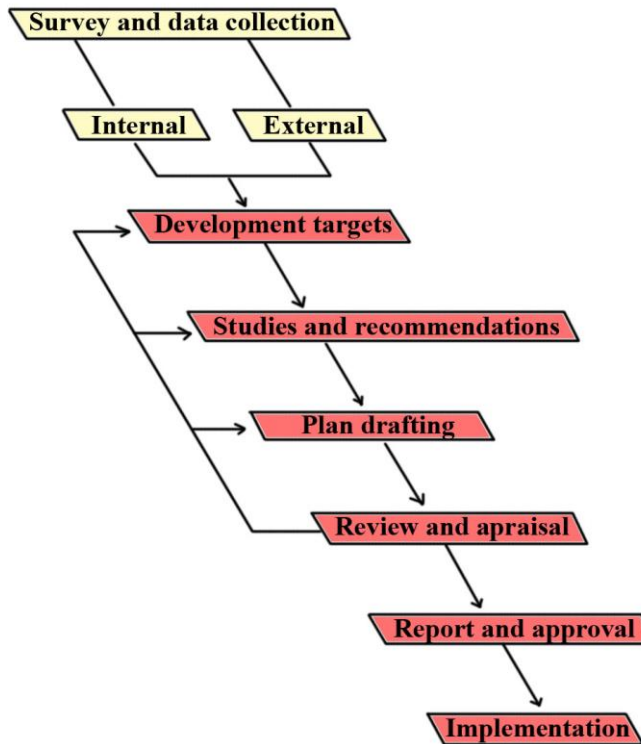
These procedures are designed to assess the performance of plan implementation. The examination targets not only the general performance of the national economy but also the specific performance of individual sectors, departments or regions. Quantitative indicators are employed, as well as

qualitative ones. Supervision is exercised either by the People's Congress and the Political Consultative Conference over government departments or by the planning authority over economic activities of various kinds. It is expected to introduce in future a mechanism of review, evaluation and examination. The leadership also stresses that the evaluation results should be publicized to enhance plan implementation.

#### 4. THE FORMULATION OF REGIONAL PLANS

Regional plans are those formulated for economic zones that may cross administrative boundaries. Therefore, regional plans aim to break up regional division, make full use of regional potential, carry out large infrastructure construction projects in a coordinated way, and promote environmental protection. Through efforts like division of labor and mutual complementation, it is expected to improve competitiveness and achieve a balanced development of the region. Regional plans serve as a base for the formulation of subordinate plans, such as urban development plans and land use plans. In comparison to other plans, regional plans attach more importance to the spatial distribution of production factors, regional differentials, resources endowment, and the relation between man and nature. The 11th Five-Year Plan had given top priority to the formulation of regional plans by initiating at the national level, three major regional development plans for the Yangtze Delta region, the Beijing-Tianjin-Hebei city ring and the North-East region (See Appendix III).

### Flow chart of the formulation of regional plans



Source: World Wildlife Fund

### SCOPE AND DURATION

As mentioned above, regional plans target economic zones that may cross the boundaries of provinces, cities or districts. By the size of economic zones, there are three kinds of regional plans: a) **cross-province plans**, such as the North-East Revitalization Plan which was drafted by NDRC with assistance of relevant ministries and the governments of Liaoning, Jilin and Heilongjiang; b) **cross-prefecture plans**, such as the Hangzhou Bay Regional Plan and the Central China City Group Plan, which are drafted by provincial NDRC with assistance of relevant provincial departments and local governments; and c) **cross-county plans** which are drafted by municipal NDRC with assistance of relevant municipal departments and county governments. **Most regional plans are long-term ones. Some serve as**

supplements to Five-Year plans or Ten-Year programs, and others are designed more strategically for 20-50 years.

(See Appendix III: Western Development Strategy)

## NATURE

Regional plans are mostly indicative in nature, with sometimes a few mandatory provisions. Major policies set in regional plans for issues, such as factor distribution, resource exploration and environmental protection, can provide guidance to the region's economic and social development.

## OUTPUT OF THE PLANNING PROCESS

A complete regional plan consists of 3 parts: the text, a glossary of terms and supporting charts and tables. The plan text is a legally binding document which includes clauses concerning plan targets, ways and methods of implementation, rules and penalties, right to final interpretation, and legal validity. The glossary explains the terms and indicators used in the document. Charts and tables offer a graphic illustration of the plan.

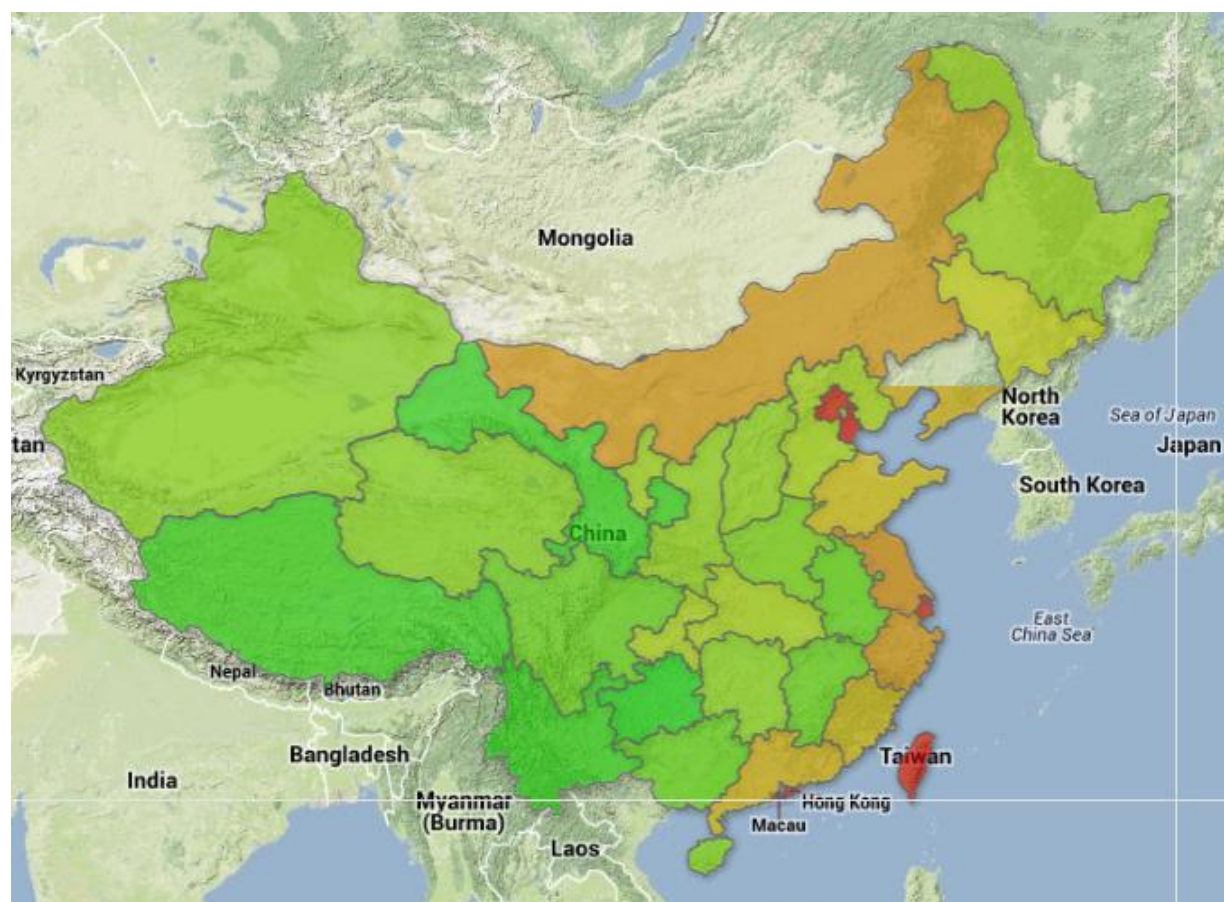
## REGIONAL PLAN FORMULATION

The preparation starts from the set-up of a leading group and a drafting team.

Major procedures include:

- a) Survey and data collection;
- b) Target setting based on extensive analyses and projections;
- c) Sector-specific studies;
- d) Plan drafting, with charts and tables if necessary;
- e) Review and appraisal by officials and experts, with possible revision;
- f) Report and approval by higher authorities;
- g) Implementation, evaluation and feed-back.

## 4.1 PROVINCIAL PER CAPITA GDP



A darker red color represents a higher per capita GDP while a darker green color represents a lower per capita GDP. Most of China's economic growth has taken place along the coast. In order to rebalance economic growth Beijing has made the western regions a target of its five-year plans.

	Provincial Economies				
	GDP Per Cap	GDP (US \$)	Sector % Primary	Sector % Secondary	Sector % Tertiary
Jiangsu	62290	759,809,236,482	6.2	51.3	42.4
Zhejiang	59249	500,020,886,517	4.9	51.2	43.9
Inner Mongolia	57974	222,168,793,997	9.1	56.0	34.9
Guangdong	50807	823,242,515,665	5.0	49.7	45.3
Liaoning	50760	343,880,250,638	8.6	54.7	36.7
Fujian	47377	271,682,215,518	9.2	51.6	39.2
Shandong	47335	701,815,579,794	8.8	52.9	38.3
Jilin	38460	163,515,587,530	12.1	53.1	34.8
Hubei	34197	303,740,388,334	13.1	50.0	36.9
Hebei	33969	379,295,428,174	11.9	53.5	34.6
Shaanxi	33464	193,583,971,532	9.8	55.4	34.8
Ningxia	33043	32,524,328,924	8.8	50.2	41.0
Heilongjiang	32819	194,662,334,648	13.5	50.3	36.2
Shanxi	31357	173,861,684,846	5.7	59.0	35.2
Xinjiang	30087	102,267,347,412	17.2	48.8	34.0
Hunan	29880	304,317,475,052	14.1	47.6	38.3
Qinghai	29522	25,844,202,058	9.3	58.4	32.3
Hainan	28898	39,029,318,481	26.1	28.3	45.5
Henan	28661	416,663,262,938	13.0	57.3	29.7
Jiangxi	26150	181,060,106,753	11.9	54.6	33.5
Sichuan	26133	325,314,148,681	14.2	52.5	33.4
Anhui	25659	236,723,911,194	13.2	54.3	32.5
Guangxi	25326	181,339,367,216	17.5	48.4	34.1
Tibet	20077	9,373,095,072	12.3	34.5	53.2
Gansu	19595	77,672,623,192	13.5	47.4	39.1
Yunnan	19265	137,589,850,700	15.9	42.5	41.6
Guizhou	16413	88,215,982,053	12.7	38.5	48.8

### Centrally Administered Cities

Tianjin	85213	174,940,512,106	1.4	52.4	46.2
Shanghai	82560	296,985,998,298	0.7	41.3	58.0
Beijing	81658	251,441,633,790	0.8	23.1	76.1
Chongqing	34500	154,890,848,611	8.4	55.4	36.2

Source: *National Bureau of Statistics of China 2011*

## 4.2 PROVINCIAL GROWTH TARGETS IN THE 11<sup>TH</sup> AND 12<sup>TH</sup> FYP

Province	11th FYP Target	12th FYP Target
Beijing	9	8
Tianjin	12	12
Hebei	11	8.5
Shanghai	9	8
Jiangsu	10+	10
Zhejiang	9	8
Fujian	9+	10+
Shandong	10	9
Guangdong	9+	8+
Hainan	9+	10+
Liaoning	11	11
Jilin	12+	12+
Heilongjiang	10+	12+
Shanxi	10	13
Anhui	10+	10+
Jiangxi	11	11+
Henan	10	9+
Hubei	10+	10+
Hunan	10+	10+
Inner Mongolia	13+	12+
Guangxi	10+	10
Chongqing	10	12.5
Sichuan	9	12
Guizhou	10+	12
Yunnan	8.5+	10
Tibet	12	12+
Shaanxi	11	12+
Gansu	10	12+
Qinghai	10+	12
Ningxia	10+	12
Xinjiang	9	10+

Source: Chinese Academy of Social Sciences



### 4.3. CASE STUDIES

This section seeks to explain the planning process at the provincial level with the help of some case studies.

The NDRC helps create macroeconomic policy, but it does not actually implement these policies. Rather, local authorities and other government ministries and bodies are responsible for seeing that these policies are actually put into operation. However, **this does not mean that after policies are enacted the NDRC takes a 'hands-off' approach.** The NDRC, like other government ministries, extends down the Chinese state from the national level, to the provincial level, then to the city level, and finally to the county level. These sub-national development and reform commissions are responsible for seeing that local authorities and enterprises comply with NDRC policies. They delegate authority to relevant local officials to ensure policies are implemented.

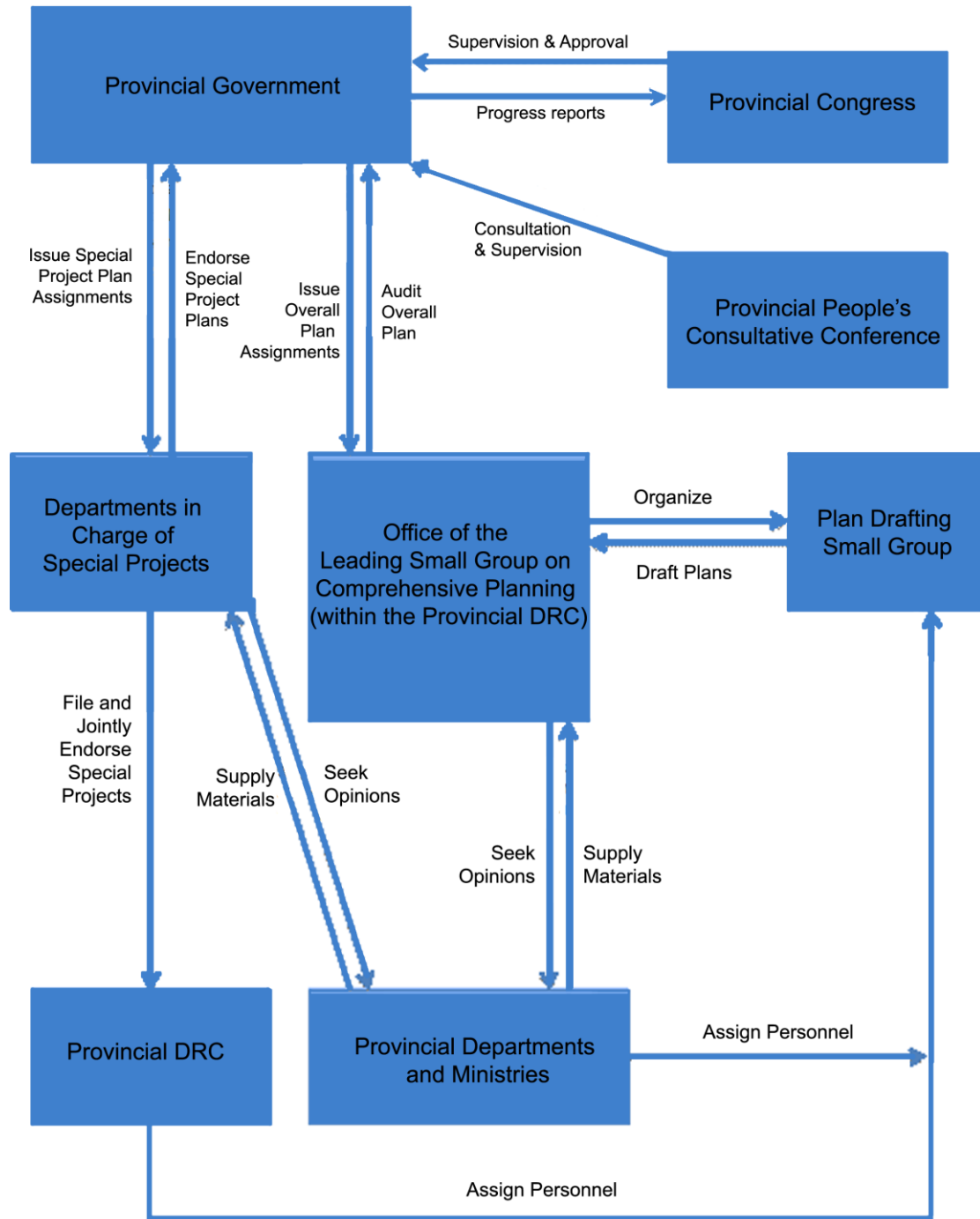
China, like other countries with multiple jurisdictions and divisions of power between central and local authorities, faces difficulties in dealing with local and private interests that run counter to central government policies. Often economic policies created by the central government are detrimental to local interests, and in order to get local officials to comply with and implement national policies central government authorities use one or several strategies depending on the local situation. **The key fact to remember is that the government in Beijing cannot rule by diktat, there is not one panacea policy,** instead government authorities choose and use policy tools and implementation strategies based on the local conditions and taking care to balance both central and local interests.

The structure of implementation for NDRC policies is not set in stone because different government ministries and bodies are responsible for the actual implementation of policies that the NDRC enacts. A policy to upgrade train lines will have a different structure from a policy that seeks to upgrade technology in a certain industrial sector.

#### **4.3.1. CASE STUDY # 1 - PLANNING PROCESS: GUANGDONG**

Guangdong is the manufacturing and export hub of China and has led the way in Chinese economic reforms since the first Chinese special economic zone was set up in Shenzhen in 1980. Through scholarly articles, interviews, and an official outline from the Guangdong Provincial Development and Reform Commission, it has been possible to have a precise understanding of the Five-year Planning process in this province. This section will outline that process.

**Chart 4 - Guangdong Planning Process**



## Guangdong Planning Process Agents

-----	<b>Participants</b>
1	Each Central Government Department, Committee, and Office
2	Each Provincial Government
3	The National People's Congress Standing Committee
4	A Special Committee from the Chinese People's Consultative Conference
5	Experts
6	The Public
-----	<b>Draft Makers</b>
1	Suggestion Group
2	Draft Outline Group: The State Council
-----	<b>Decision Makers</b>
1	Politburo Standing Committee
2	Politburo Members
3	State Council Leaders
4	National People's Congress Members
5	National People's Congress Standing Committee Members

The provincial planning process consists of three stages: 1) **preparation**, 2) **formal drafting**, and 3) **information dissemination** (Ma Xingyu, Interview, 17August 2013). The first stage begins with an assessment of the

last five-year plan, which begins between two to two and a half years after that plan was enacted. Numerous studies are conducted on various aspects of the economy to provide adequate information to the policy makers who will be drafting the next five-year plan. These studies are conducted by scholars, universities, and local government bodies like the provincial statistical bureau and the provincial DRC. Cities within Guangdong province also conduct studies to provide sufficient information for drawing up their own plans.

The second stage consists of creating an outline and then a formal draft of the provincial five-year plan. After the results from the provincial and city level studies have been collected and analyzed a broad outline or framework of the five-year plan is made, which is circulated among the various stakeholders described in the first part of this section. Once suggestions and comments are received from the various departments, including from the public, an initial draft is made, which is then given back to the departments for further suggestions and comments. After receiving approval from the national level as well as from the provincial Central Party Committee, the draft is sent to the Guangdong People's Congress for ratification.

The final stage is information dissemination, which simply means informing various stakeholders of the new plan and their new roles and responsibilities. Information is disseminated formally through government and Party channels and through informal channels such as print and online media publications.

Chinese scholar Shaoguang Wang also describes "five circles" that illustrate how different groups are consulted during the planning process.

These “circles” can be seen as sub-stages to the major stages mentioned above. Each major stage consists of the following five sub-stages or “circles.”

- 1) **Basic Consensus:** The ideas of all stakeholders and policy makers are heard and consolidated into a basic approximate consensus, in order to form a starting point for the plan.
- 2) **Collecting Thoughts:** Similar to the first stage, but now with a common starting point, ideas and suggestions are collected and consolidated into a rough outline or draft of the plan.
- 3) **Seeking Opinions on the Draft:** Opinions on the draft are sought from industry and business circles, departments, localities, foreign and domestic experts, and scholars. During each stage opinions and suggestions will be solicited multiple times.
- 4) **Combining Decisions:** This takes place during a meeting of relevant government officials *and* at each level of government. Once a level of government approves the plan they send it up the chain of command for further approval, until it reaches the National People’s Congress for the national five-year plan. For the national five-year plan the order of the government bodies to which the draft is sent, is as follows:
  - a. Leading Small Group
  - b. State Council Standing Committee
  - c. State Council
  - d. Politburo Standing Committee
  - e. Politburo
  - f. Chinese Communist Party Central Party Committee
  - g. National People’s Congress

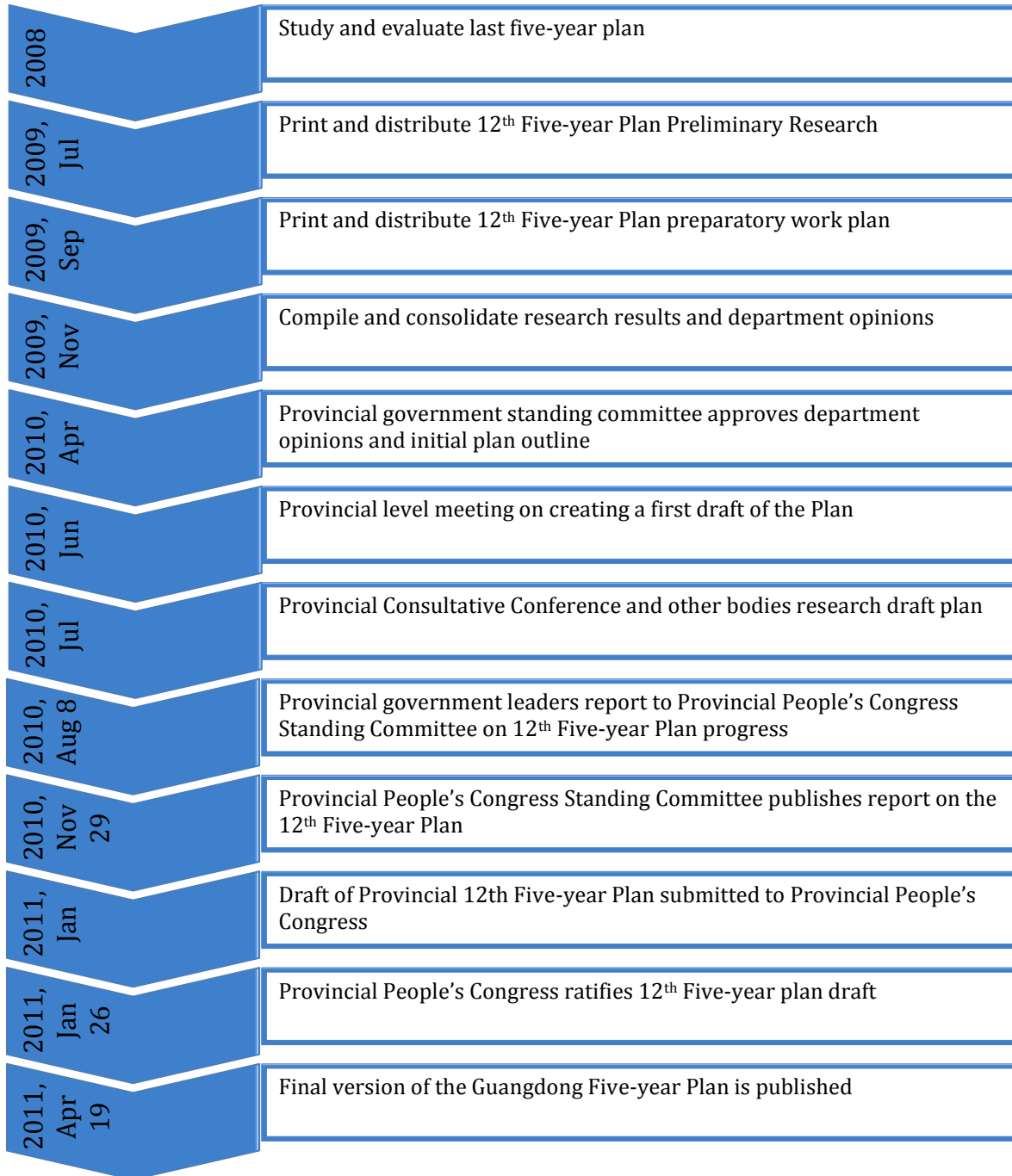
**5) Dissemination of Information:** Like the major stage above, this sub stage, or circle, consists of informal and formal means.

To better illustrate this process a timeline for Guangdong's 12<sup>th</sup> Five-year Plan is provided below in Chart 5 (Guangdong Provincial Development and Reform Commission). The final plan consists of 25 province-wide programs and five special region specific programs. The programs attempted to tackle a wide range of economic and social problems from urbanization and increasing the service sector to increasing high tech manufacturing and decreasing environmental degradation. The plan also included eight major goals for the province to achieve during this five-year economic plan. Aside from GDP and income growth targets, the other goals were not specific and left the provincial and lower level governments sufficient room to test their own policies so long as they sought to achieve the broad goals laid out in Guangdong's 12<sup>th</sup> Five-year economic plan.

The chief body at the provincial level is the leading small group, which is made up of key economic players from the provincial DRC and provincial ministries. This group forms a core consultative and coordinating body that is essential to implementing national plans at the provincial level. **Consultation among stakeholders reduces resistance to national plans and ensures relatively smooth policy execution.** As can be seen in Chart 4 the leading small group is at the center of the provincial economic planning process and this small group is within the provincial DRC even though it consists of members from outside the DRC. The reason behind creating this small group is that it brings the important stakeholders to the same table.

Chart 5

### Guangdong's 12<sup>th</sup> FYP Timeline





#### 4.3.2. CASE STUDY # 2 - IMPLEMENTATION PROCESS: SHANXI

As mentioned earlier, China, like other countries with multiple jurisdictions and divisions of power between central and local authorities.

Part of the NDRC's 11<sup>th</sup> Five-year Plan was to increase energy efficiency and decrease emissions. The national target was to decrease energy intensity by 20% from 2006 to 2010. However each province had a separate goal depending on local conditions. Shanxi Province, a major coal-producing province located in north central China, had a target of 20%. The Shanxi provincial government was given the freedom to achieve its goal using whatever policies it saw fit, as is the case with many NDRC goals.

Below is an organizational chart for this 'National Energy Saving And Emissions Reduction Campaign' in Shanxi province. Notice, that as in the Guangdong example, there are many actors involved in the policy making process aside from the provincial development and reform commission. Multiple departments take part in policy formation and private and state owned enterprises are given opportunities to let their views be known to policy makers, so that when the time comes to implement these policies, there is little resistance.

Due to the vast size and diversity of Chinese localities local leaders use a variety of implementation strategies depending on the local situation. Local strategies mirror the top level policy making process in that local leaders seek consensus among various government bodies and enterprises to reduce resistance to NDRC policies. However, harder enforcement measure such as punishments, are also an option. The table below lists some of the strategies that leaders used in Shanxi in order to implement their energy efficiency

goals. Since Shanxi is a major coal-producing region, policies to increase energy efficiency and reduce carbon emissions were highly likely to encounter resistance, which made consultations with coal producers essential to reduce resistance to economic plans. Furthermore, by adopting various implementation strategies policy makers increased their chances of creating successful policies.

<p><b>Implementation Strategy</b></p> <p><b>Policy Bundling:</b> This strategy involves linking, or bundling, central government policies and policies that are of greater importance to local interest. NDRC policies may be linked to policies more important to local interests or to larger national policies in order to get support from local authorities and enterprises for NDRC policies.</p> <p><b>Interest Bundling:</b> When central government policies are linked to the interests of local actors. Officials implementing NDRC policies will attempt to align their interest with local state owned enterprises and large private companies by explaining the benefits of implementing NDRC policies and the potential compensatory benefits or rewards that companies can obtain from following these policies. The point of this strategy is to make the other party willing to implement central government policies and avoid adversarial relationships.</p> <p><b>Framing:</b> This strategy seeks to shape local perception of national policies and depict these policies in a manner that local residents, authorities, and enterprises will be receptive to. Local and central authorities will frame NDRC policies in a way that is likely to garner the greatest support from local interest. Public announcements or information about a new highway will stress the jobs that construction and improved infrastructure will bring to a region.</p> <p><b>Rewards and Compensation:</b> Often these rewards are symbolic and don't actually cover the costs of policy implementation, however they do increase the likelihood of compliance especially if the rewards are given to key individuals. Compensation funds are another strategy that seeks to ease the costs of economic restructuring by offering monetary or other forms of compensation to those who are harmed by reforms.</p>	<p><b>e.g.:</b> A national campaign to increase energy efficiency may be linked to policies of more pressing concern to local residents, like increasing environmental protection and decreasing harmful pollution. In Shanxi the efforts to improve China's environment prior to the 2008 Olympic games were linked to Shanxi's coal power plant closures.</p> <p><b>e.g.:</b> Local authorities indicated that if private enterprises willingly comply with energy conservation policies they could increase their market share, secure long-term operations, receive preferential treatment, and receive other economic benefits, like long term financing. In other words, local authorities assured enterprises that it was in their best interest to increase energy efficiency.</p> <p><b>e.g.:</b> Local officials stressed that energy reduction policies would upgrade production processes and shift productive capacities, thus no net-loss in jobs or economic activity would be experienced.</p> <p><b>e.g.:</b> Local state owned enterprise managers could receive government promotions for meeting NDRC policy targets. Private enterprises and state owned enterprises would receive monetary rewards (up to INR 3,000,000) for achieving a high degree of policy compliance. Also, enterprises could receive continued access to bank financing if they willingly complied. Starting in 2008 Shanxi had INR 3,100,000,000 fund to cover the costs of the energy efficiency program and compensation.</p>	<p><b>Punishments:</b> Although it is best to avoid using adversarial tactics while trying to implement policies, occasionally sticks must be used instead of carrots. Punishments can include a wide range of penalties including limiting access to funding, cutting off utility services, increasing taxes, fines, or withholding personal promotions.</p> <p><b>Accountability:</b> Creating clear goals and accountability schemes is a key aspect of NDRC reforms. In order to keep local authorities and enterprises accountable and give them clear targets to achieve the NDRC and lower level government bodies create clear goals that must be met in order to judge the success or failure of the program. Monitor and evaluation teams are set up at various levels of government and the figures they provide are checked again by more experts.</p> <p><b>Personal Incentives:</b> Local officials and enterprise managers are often given personal incentives to achieve certain goals. These incentives can include personal promotions for managers in state owned enterprises and local officials or monetary awards.</p>	<p><b>e.g.:</b> Local authorities used differentiated utility pricing or cut off utility services altogether to enterprises that didn't meet energy reduction targets. Government officials will also signal to enterprises that if they don't comply they will be punished. These signals are often enough to coerce enterprises to follow NDRC policies. Local governments that failed to meet targets were also denied permission to increase industrial land or participate in high-energy consumption projects.</p> <p><b>e.g.:</b> Local enterprises and government authorities were made to sign contracts with higher authorities that specified the emissions and energy savings targets they were required to meet. Also, two quantitative assessment schemes were established creating clear targets for local enterprises to meet and clear standards for local officials to use during evaluations. Once monitor and evaluation teams compiled their data it was sent to higher authorities and experts to be checked.</p> <p><b>e.g.:</b> At the city and county level some monetary rewards were given to enterprise managers that achieved their energy efficiency targets.</p>
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### 4.3.3. CASE STUDY # 3 - URBANIZATION: CHENGDU

In 2003 Chengdu and Chongqing started an urban-rural integration plan to help deal with the problems of an urbanizing China and an increasing wealth gap between city dwellers and urban residents. As with most NDRC plans, the basic principles involved in this scheme were prepared by the NDRC, after which the details were worked out by concerned departments at lower levels of the government. After the government in Chengdu specified more details of the urban-rural integration plan, the divisions below the city government were allowed to further specify these plans and implement policies that worked best in their particular jurisdiction, based on that district's economic and social situation. These plans also clearly stated the roles that the market and the government should play; making sure the government did not overstep its bounds.

The advantage of having different sub-districts implement and innovate their own policies is that policy makers can then choose the most successful plans and implement them across a wider area. When very specific countrywide policies are rolled out, they can easily put into action a faulty policy across the entire county, but when proven policies are picked from successful test cases, they are more likely to work in practice on a large scale across the country. **This has been one of the trademarks of Chinese economic reforms: first test a policy in a particular region, then, if it is successful, it is applied it to a larger area or the nation as a whole.** Another feature of Chinese economic reforms, which was used in Chengdu and mentioned above, is balancing the interests of different public and private actors to prevent resistance to economic reforms. The point of incorporating the interests of different stakeholders and finding a consensus is to avoid conflicts that could sink a seemingly effective policy.

## 5. THE FORMULATION OF SPECIAL PLANS

Special plans are designed for specific or individual areas of economic and social development. They can also be seen as a detailed version of the general plan for a specific sector. Governments use these documents as justification or reference when making major policies, reviewing key projects, making investment decisions, or allocating budget funds to the sector concerned.

### AREA AND SECTOR

Special plans are made largely for the areas or sectors which

- a) are extremely relevant to economic and social development;
- b) need huge state investment fund or the approval of the State Council on investment projects; and,
- c) need government regulation or financial assistance. These areas include agriculture, water resources, energy, transport, communication, resource exploration and conservation, environmental protection and ecological conservation, disaster reduction, science and technology, education, public health, social security, and national defense.

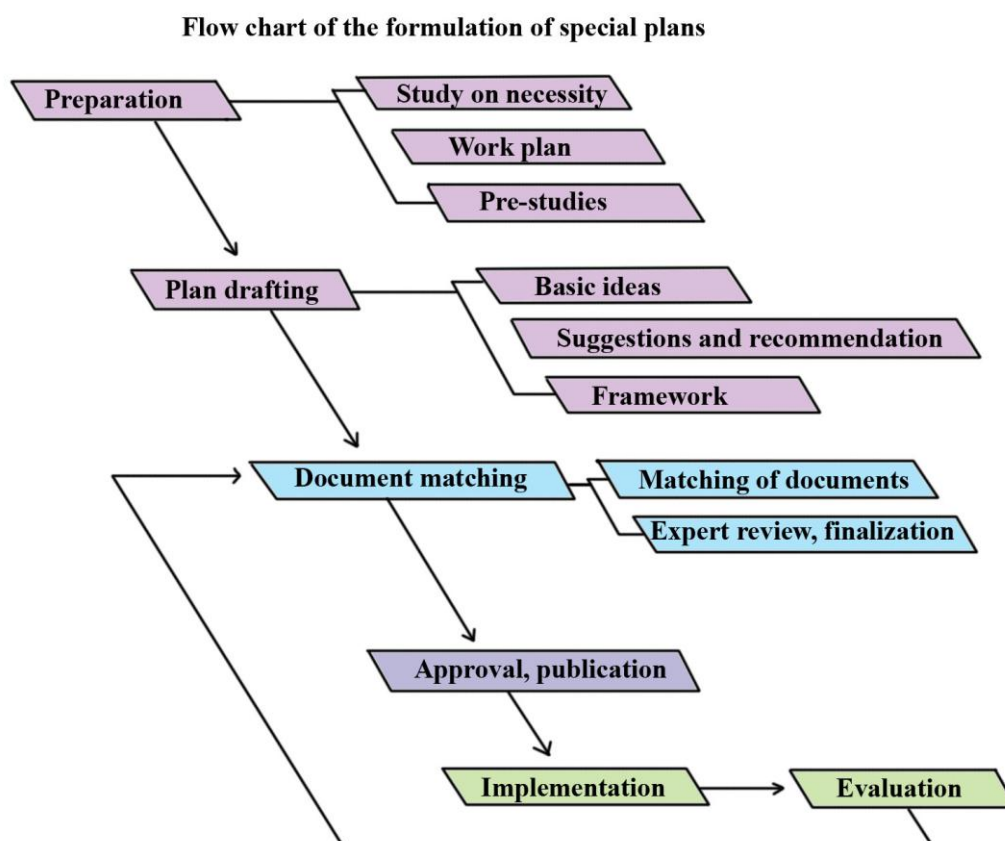
### DURATION AND NATURE

Special plans are valid normally for five years, parallel to the Five-Year plan. If necessary, there can be strategic forecast for longer periods. The guidelines, principles, targets and strategies listed in the special plans are not mandatory in nature, aiming just to show the government's attitude and position and provide guidance at macro level to the sector's development. However, subordinate plans or policies should observe these guidelines and principles.

### PLANNER AND OUTCOME

Relevant ministries and commissions are responsible for formulating special plans for their respective areas and sectors in order to make the plans more

operational, friendly and transparent. Special plans are published in text, with possible charts and tables.



Source: World Wildlife Fund

## PREPARATION

The drafting team starts from a working plan, which includes steps like pre-studies, an activity plan and a timetable. Pre-studies look at major issues confronted by the sector in future development and put forward basic principles based on review, survey and investigation.

## PLAN DRAFTING

The drafting team works out a list of key ideas based on the pre-study results and suggestions from relevant departments. The outline expands to a draft work after consulting experts and the public.

## **DOCUMENT MATCHING**

During the plan drafting, the team must take efforts to "match" the special plan with other key plans, such as the National Five-year plan and special plans in other related areas. That means, the key elements of the special plan should be consistent with that stated in other documents, such as judgment on the status quo, demand forecast, major indicators, the direction and key areas of development, key construction projects and so on. The draft should be evaluated by qualified agencies or experts, including the environment impact assessment required by law. The plan will be finalized after possible revision.

## **PLAN TARGETS**

Main targets include anticipated and mandatory targets. Anticipated targets indicate the orientation and prediction, while binding targets must be met.

## **PUBLICATION**

National special plans, for example the National Plan for Education Development during the 11th Five-Plan Period, will be approved and publicized by the State Council, while sector-special plans will be publicized by the ministries concerned.

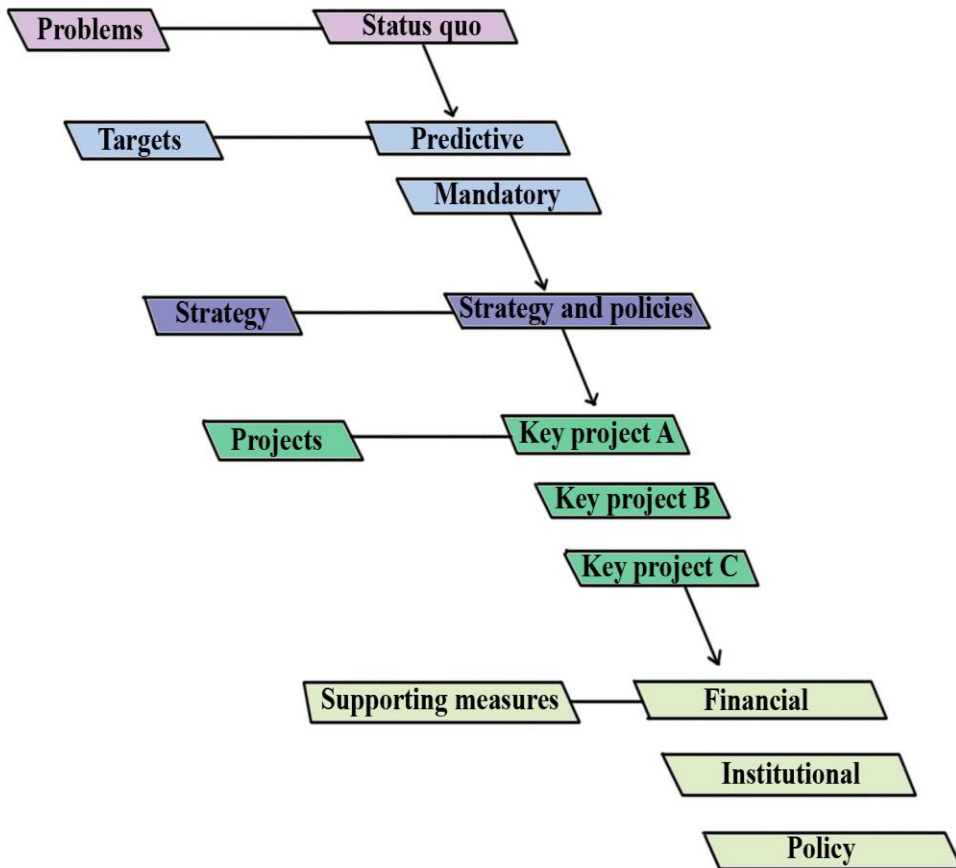
## **IMPLEMENTATION**

The plan goes into effect after approval and the identification of supervisors. The government departments carry out plan clauses step by step under enhanced supervision.

## **EVALUATION**

A mid-term evaluation will be conducted if necessary to assess the progress. Suggestions will be put forward for amendment.

## Key elements of special plans



Source: World Wildlife Fund



## 6. SOME CONCLUSIONS & ASSESSMENTS

- The NDRC policy-making and implementation process are **both collaborative and consensual in nature**, because without seeking consensus among concerned parties, the NDRC would not be able to achieve effective and efficient coordination between the various levels of planning.
- **In principle, the Party is to make the policy and the State is to administer it** – though of course in reality the division is not so neat.
- At the top, party leaders and heads of different ministries strongly push their own interests within the NDRC policy-making process. **There are many interest groups and lobbies working within the government and party bureaucracies and yet the finalized policy represents the outcome of a consensus building process.** This helps mitigate resistance at different levels to the countrywide economic programs and policies.
- The most striking feature of the Chinese system is that there are **parallel Party and Government structures at each layer of the administration from the top to the grassroots** – and the **Party structures always exercise ultimate authority over their government counterparts.** The Party in addition has committees, branches and cells embedded within the state organs.
- Once the plans/policies are finalized, they are then communicated down the vertical structure of the Chinese state through the NDRC

and the various other appropriate ministries as also through the Party structures.

- After these policy directives reach the local level, the leaders have the responsibility of communicating these policies across their level of government and making sure these policies are implemented.
- Due to the vast size and diversity of Chinese localities local leaders use a variety of implementation strategies depending on the local situation. Thus provincial plans and strategies differ greatly across the country. **De-centralized decision-making** is promoted to give local governments more autonomy in the formulation of local plans.
- Local strategies mirror the top level policy making process in that local leaders seek consensus among various government bodies and enterprises to reduce resistance to NDRC policies, however, harder enforcement measure and even punitive actions are also an option.
- Since China's Reform and Opening policy started in December of 1978 the market has played a larger and larger role in regulating economic activity, and **the role of the plan/government has shifted from "micro-economic intervention" to "macro-economic management or regulation"** that provides essential public goods. By adopting this new economic role the government hopes to both prevent market failures in the future and avoid the government planning failures of the past.

- After establishing itself as an economic power, China has now realized that it will now have to develop a new policy framework that will help to **move away its focus from “growth at any cost”, towards a more “balanced” and “sustainable growth pattern”**
- The planning process and procedures have become increasingly and **highly standardized with a high degree of transparency and public participation.**

## 7. APPENDIX I: THE FORMULATION OF CORPORATE PLANS

There are two kinds of enterprises in China: those controlled by the central government and those run by others. For central-run enterprises, the planning process goes as following: the government instruction on plan formulation, setting up a drafting team, working out basic ideas and principles, completing the draft and reporting to the State Assets Management Commission (SAMC) for approval, implementation, and evaluation.

The duration of corporate plans – pertaining to the other kind of enterprises - is relatively flexible, ranging from 3 to 5 years. The plan normally takes the form of text document with a possible appendix.

The plan-formulation of these other enterprises follows procedures similar to those of the government-controlled enterprises. However, there is no need for SAMC approval for the former.

## 8. APPENDIX II: INFRASTRUCTURE AND DEVELOPMENT

China's modern leaders took note of the role that large infrastructure projects played in the development of the world's two largest economic hubs, the United States and Europe. **Investing as much as 9 percent of GDP in infrastructure in the 1900s and 2000s** (Wirjawan, 2010), China laid the foundations for its current success. According to the Ministry of Transport, high-speed train lines already connect most of the major urban hubs and highways will connect more than 90 percent of cities with a population of more than 200,000 **by the end of 2015**. (*People's Daily Online*, 2011) In that same year, **China's total highway length is expected to surpass that of the US**. As of this year, China's mobile phone users reached a staggering 1.11 billion; and it has achieved an Internet penetration rate of 42.1%, giving it the world's largest online population. (*Xinhua*, 2011). Allocation of public resources to infrastructure has allowed China to maximize and exploit its competitive advantages and has made it a magnet for foreign enterprises and investors. (Bughin et al, 2013) **Infrastructure both embodies and catalyzes development.**

China's social infrastructure, its hospitals and schools, are not too far behind. Although significant deficiencies persist, both the health and education systems have made great strides despite the challenges of managing such a vast population. Life expectancies have risen steadily over the past thirty years, while maternal and infant mortality have plummeted. The country's top universities are pumping out graduates with the knowledge and attitudes necessary to compete on the global stage, and are increasingly attracting top foreign talent as well. According to a McKinsey study, by 2030, China will account for 30 percent of the world's new college-educated workers. With the Chinese government spending over US\$250 billion a year on education, it

would not be surprising to see Tsinghua, Peking or Fudan universities begin to challenge the best of the West over the next few decades. Thanks to their lower fees as well as grants and scholarships from the Chinese government, many of these schools' international students are from developing nations. Upon visiting six African nations on his first international trip as China's president, Xi Jinping announced 18,000 new scholarships for African students to study in Chinese universities over the next three years. Many of the recipients will return home with honed skills and fresh ideas on how to jumpstart their countries' economies. Increasingly, they will arrive to find their governments on honeymoon with Beijing – not Washington.

## 9. APPENDIX III: CHINA'S WESTERN DEVELOPMENT

### STRATEGY/MODEL

Ever since China started to open up its economy to the outside world from 1978 onwards, the coastal regions have quickly moved ahead as compared to the interior regions of China in terms of social and economic development. It was against such a background that the Chinese central government proposed the Western Development Strategy (WDS) in 1999. The aim of WDS was to first accelerate the growth and development of the western regions in China, and secondly to reduce the regional disparities within the nation. By October 2000, the State Council released a set of policy measures of WDS, which directly marked the formal implementation of the WDS (Lu and Deng 2011). This policy covered six provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan and Yunnan), five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang) and one municipality (Chongqing). As of 2006, a total of RMB 1 trillion has been spent in building infrastructure projects as well as in other activities for enhancing the development of the western regions in China ([chinagate.cn/features/western-development](http://chinagate.cn/features/western-development)).

The WDS is an excellent example of how the ruling party has intervened in the developmental process and propounded a developmental strategy which then became a part of the overall economic process. Thereafter it finds a place in both the Five Year Plans as also the Annual Plans at both the Centre and province level.

According to the policy framework released by the State Council, relevant departments of the central and local governments had issued some

specific policies or guidelines on how they wish to carry the development of western China. From the Tenth Plans and onwards, China launched its development drive for the enhancement of the western regions. The important policy instruments and their actions under the WDS are listed below:

### **Financial Transfers and Tax Preferences**

Intergovernmental fiscal transfers play a key role in WDS. The central government from 2000 has increased its transfers for the local governments in the western regions of China. In 1999, a mere 29.01 percent of the central government's fiscal transfers were allocated to the western parts of China. However by 2010, this percentage increased to 39.42 percent, which clearly indicates a significant rising trend after the implementation of WDS (Lu and Deng 2011).

Tax reductions and exemptions also play a key role in WDS. Enterprise income tax reduction is primarily important, while reduction or even exemption of business tax, value added tax, and resource tax can further be seen as supplementary measures to encourage business and industrial activities within the western regions of China. Largely, these set of preferential tax policies of the WDS were mainly for domestic and foreign-funded enterprises, or those who dealt in transportation, energy, water conservancy and postal service services. For these enterprises, tax could be fully exempted for the first two years, and reduced to half for the following three years from the date of establishment (Lu and Deng 2011). Enterprises or industries in western China were also encouraged to import the essential technology and machinery required by them from outside of China, while their tariffs and other import value added duties were exempted on such items.

### **National Investments**

In the past decade, 143 key projects with a total investment of over RMB 2,874.2 billion have commenced under the WDS (Lu and Deng 2011).



Such projects cover the fields of infrastructure, construction, education, public health, and environmental conservation and protection projects. Between 2001 and 2010, the average annual growth rate of state budget for investment in fixed assets by the central government in western China, has roughly amounted to 30.76 percent, much higher than the percentages of eastern, central, and northeastern regions (22.22 percent, 26.64 percent and 27.14 percent) (Lu and Deng 2011). Moreover, 40 percent of national long-term bonds were invested in western regions each year, in the field of construction and improving infrastructure related activities (Wang and Wei 2004).

### **Financial and Credit Support**

In order to enrich development funds for WDS, the local governments and People's Bank of China (PBC) came up with several measures that would encourage financial institutions, most notably national policy banks to supply loans for supporting western regions development. Moreover, these banks would also encourage foreign banks to establish their branches in western China, encourage private capital to participate in the construction of financial service institutions, and also play a role in promoting the establishment and the development of village or agriculture bank. Such agriculture development banks will provide the much needed financial support to a large rural population in terms of agriculture development in the western China. Financial institutions like state-owned and policy banks have now increased amount of loans towards the western regions. Near the end of 2010, loans balance of China Development Bank for western China amounted to RMB 1000.19 billion, which accounted to 22.36 percent of its entire loans, much higher than the 17.18 percent in 2001 (Lai 2012).

### **Guiding Policy**

In order to oversee development in the western regions, the central government has employed four types of guiding policies: guidance in relation to investment of foreign and private capital within western China; providing an

incentive mechanism to encourage people with high level of talent or expertise to work in the western regions; providing guidance to financial institutions in order to provide loans to industries and members of the rural community; encouraging the eastern and coastal regions/governments to provide aid/loans for the development in the western regions.

### **Interregional Mutual Aid Promotion Policy**

There are two types of interregional mutual aid promotion policies – one is referred to as *Hand-in Hand Aid* (HHA) and the other is *East-West Interaction* (EWI). HHA is mainly defined as a compulsory measure, whereby the central government will consider the opinions of the local governments while launching a new project within the western region. Aid fields of HHA largely involve aspects of economic and social development like infrastructure/construction, education, health, industrial development, and technical assistance, (Lu and Deng 2011). EWI, first proposed in 2005, mainly advocated the idea of working in accordance with the market rules, through the economic entities from eastern and western regions by jointly promoting cross-regional flow of production factors, and by exercising their comparative advantages (Lu and Deng 2011).

## 10. APPENDIX IV: INTERVIEWS WITH CHINESE ACADEMICS

### **Interaction with Academics from the School of Governance, Beijing University, Beijing**

- **How does one understand the nature of the “Plan” in China today?**

Planning today is mainly a response to the broad political and ideological guidelines articulated by the Party and Government. It can be therefore seen as the process that follows the setting up of goals and the plans to achieve them. The NDRC is a body to support the plan.

- **There seems to be a gap between Planning and Budgetary process. It is said that it is the Market that plays a greater role in the process of revenues and budgetary allocation. How does that happen?**

In 1998 (sometimes, pegged around the year 2000), there was fundamental reform in the fiscal system. This mainly related to public finance. The public finance concept was under the purview of the Ministry of Finance. Fiscal affairs were considered to be the internal affair of the government. After 1998, there were a number of reforms in the fiscal system. So, while under command planning, each Ministry was considered to be a functioning agent, and given a separate functional budget, this has changed after the reforms were introduced. Furthermore, the government has started to purchase merchandise from the market. Earlier, the fiscal system did not allow the government

to purchase directly from the market. Now, the market provides public funds as support. Further, the companies in the market had to compete with the government's purchase. The purchase of goods from the market and public finance were not considered as contradictory. The government now had to purchase publicly. While there was some amount of outsourcing, there was open competition with certain kinds of service. Following the experience of fiscal reforms in the USA in the 1980s, the first real planning reform was also undertaken.

Serious attempts were made to push the economy away from Planning. In 1994, reforms in Taxation - the means by which official/state control was exercised - were also introduced. The private sector was encouraged and simultaneously the government pushed for State Owned Enterprise reforms. The taxation reforms were radical, in so far as the objective was to establish legitimate mechanisms/institutions for the collection of taxes. While making sure there was no contract between the state and enterprises in this regard, they also wanted to correct the relation between the centre and provinces on sharing of tax revenues. Now, the state has been using the market to get resources rather than just relying on taxes and fiscal system. On the spending side, different (political) forces are competing for more resources in medical care, infrastructure, and social security. Before the reforms, central planners simply assigned funds for projects. Now, through public finance and taxation, the shift is towards market from planning. So, there is input and output at the same time. The basic goal of fiscal reform is to set up the concept of public finance. Demands, prices and investment are important in this.

- **If the market is playing a bigger role in financial allocations, how are targets being set?**

The Party is said to have maximum control for decisions regarding the allocation of resources. However the NDRC is a mammoth organization with wide ranging, sweeping and extensive powers. There is an increasing feeling among sections of economists/experts that the NDRC should be disbanded.

- **Who plays the dominant role in shaping the discourse on these issues? Is it the government or outside and independent experts/economists?**

The debates are encouraged from all possible avenues but are mainly facilitated by the government, wherein both the party and y5tbureaucracy overlap. Of course, in the final analysis, the overall guidance comes from the Party.

Different departments and provinces also come together under the NDRC aegis. There are different plans by different departments of the government. The Information and Industry department/ministry is also very crucial. The NDRC puts together all plans of different ministries/departments. Plans are also made and submitted to the NDRC or the provincial DRCs, by NGOs. These are not to be understood as comparable to those that operate in India or in the western countries. They are more like non-state institutions - one instance of such a Chinese NGO is Light Industry ministry.

Included among the different participating parties, are also the ministries, local governments, those working on major state projects

and State-Owned Enterprises. The SOEs are no longer part of the government, but are still state institutions and part of its administrative mechanism and therefore participate in the Planning process.

All the proposals go to the NDRC, which then attempts to incorporate all the inputs into a larger macro Plan.

- **Is the NDRC more responsive to the demands of the different ministries or the Communist Party?**

It is mostly to the CPC and this includes even at the provincial and local levels.

- **Is the opposition to power of the NDRC, more from the provinces or ministries? What is the nature of the relationship between the Centre and the Provinces?**

The central government's standpoint naturally is that the NDRC is an essential institution. The central party leadership and the state council exercise direct control in the reallocation of resources. There is a general understanding that there could be no challenge to NDRC's authority due to its powerful position and role at the centre.

During the 1950s and 1960s to some extent, Plans were made for almost everything and in considerable detail, for instance, on the exact quantities of agrarian production, production methods and different inputs. However, today there is no such detailed planning anymore. Everyday consumer goods have been removed from the purview of planning. With regard to industry, there are some basic

guidelines provided by the CCP in the first instance, which are reiterated in the annual Work Reports delivered by the Chinese Premier to the National People's Congress. The recent focus has been, in the context of the overall industrial policy, aimed at encouraging people to invest more in clean energy. There are also some government subsidies to promote this priority area. Another example is that of the highway system. Here, the local/provincial governments are asked to support the extension of the highways. The central government funds around 30%, while the rest have to be borne by the local/provincial governments; usually there are tough negotiations that take place with a lot of hard bargaining from the provinces. The policy of toll collection from the highways is very meticulously followed, with the dividends shared by the Centre, the provincial/local governments and other private investors. While the larger framework for this is formulated by the NDRC, the final say rests with the State Council.

There are consultations with the provincial DRCs - the latter also submits large-scale proposals to the NDRC since the NDRC coordinates the macro-economic developmental issues. There is not much role for the NDRC with regard to Social Security, other than laying outlays. But Social Security forms a significant component in the Five-Year Plans. Specific ministries play key roles in drafting ministry-specific plans, in coordination with the Ministry of Finance. With regard to finances, there exists some kind of division of labour. The NDRC is not a fund-disbursing institution though it has funds of its own - its main role is granting approval to projects. Once the NDRC approval is granted, the funds are allocated by the Ministry of Finance. Without NDRC's approval, no funds are released – but since the Finance Ministry is also a part of the discussions on specific projects/proposals,

the fund approval is often a foregone conclusion. Provincial DRCs and ministries also lobby for funds and approval of projects by the NDRC. Given the vertical integration, the relevant ministry at the provincial level can also approach the concerned Ministry at the Centre, which then forwards the proposal or submits a report to the NDRC and Ministry of Finance. The proposal of the ministry goes to the state agency dealing with it along with the NDRC.

A good strategy is needed to convince the NDRC for projects' approval and thus it carries some favourable policies.

- **How are plans and strategies like the “Western Development Strategy” to be understood, since they are not part of the five-year plans?**

Such strategies may not necessarily go together with the five-year plan. They have different origins and independent funding pattern.

- **How does the state ensure that market forces do not destabilize the macro-economic scenario?**

Planning is not compulsory today. Central Planning operates more as a guide rather than a mandate. Mostly, the central planning is minimal and this is seen most sharply in the matter of 'pricing'. Now, the government's role in pricing is very minimal, with the market playing a much larger and significant role. But critically important areas like electricity and energy still have the government setting the prices.



## 11. APPENDIX V: ROLE OF THINK TANKS AND PUBLIC OPINION

*A further notable aspect in the consultation process during the formulation of the Five Year Plans is the role of think tanks and public opinion.*

During the 1980s, economic think tanks played a key role as centers of expertise, with distinctive philosophies and approaches to economic transition. Although they were all government-sponsored, they served as important alternatives to the policies and advice available within the formal government bureaucracy. In the 1990s, think tanks continued to play an important role, but gradually over the next decade, the expertise was absorbed into the bureaucracy – but at the same time independent think tanks emerged. The total network of advisors has become more important. The developments over the last two decades have imparted certain distinctive characteristics to the process whereby expertise and inputs are absorbed by the the Planning institutions and agencies:

- The government has become more professional and can effectively absorb ideas and talent.
- The increase in the number of independent think tanks has led to the emergence of a broad policy community both within and outside government who are regularly called upon for briefings and input by the various ministries.
- The ideological divisions among the economists are much less important than they were in the 1980s – this facilitates the loose structure of the policy-advising community.
- Top policy makers can reach outside the normal bureaucratic chain of command and task individuals or think tanks with different research tasks.

- Significantly, regional economic policy communities are most important in Guangdong and Shanghai – not so much in Beijing.

The **Development Research Centre (DRC)** is the most important of the “establishment” think tanks. It was founded in 1981 but acquired a different character after the merger of three separate research organisations in 1985. It now works directly under the State Council. It is a highly competent, professional organization that often serves, informally, as an independent check on the policy preferences of government departments (Naughton, 2002). DRC is also home to some of the most competent model-builders among the Chinese economics community and largely due to this fact, DRC has more input than most other organisations, to the five-year and other longer term plans adopted by the government. It also submits from time to time reports on economic issues of concern.

*A DRC report in July 2013 highlighted a serious challenge - the net value of China's government liabilities as of the end of 2010 stood at 11.3 trillion Yuan (\$ 1.85 trillion). The report urged quicker reform of the public finance system to strengthen the fiscal position of local governments. As a consequence, the State Council in July 2013 ordered the National Audit Office to conduct a new survey of all government debt. To address the local debt issue, the DRC offered four recommendations: foster new growth opportunities, accelerate public finance reform, control public spending and establish a hedging mechanism for possible debt risk. The report also suggested imposing a property tax on all homes, which it said would build a solid taxation source for city-and country-level-governments. (Based on a report, “Debt Crisis Unlikely in Short term: Think Tank”, China Daily (Beijing) August 17, 2013.)*

Apart from the DRC, there are also several other independent think tanks and research institutes, whose views and opinions mattered in terms of policymaking. In fact, the discussions with the provincial planning officials in Guangdong indicated the degree of importance given to academics and scholars in the making of the plans. During the process of preparation of plans, which involved the study of the current situation, challenges and opportunities, and taking into consideration some key figures/topics as well as guiding ideologies like Marxism, cooperation with various academics and scholars in universities, research and educational institutions is established. Field studies on economy, trade, etc. are taken up. In the 12<sup>th</sup> Five-Year Plan, scholars were asked to take up 89 field studies' projects, which was open to universities across China. Scholars had to submit projects and go through a selection process, after which they had to submit their reports within a particular time period. The visible openness and wide-ranging consultations during the plan formulation, has been increasingly seen in the recent times. During the making of the Eleventh Five-Year Plan, in 2004, the World Bank was invited to assemble an international team of researchers to advise the NDRC. More interestingly, the World Bank's 2003 *World Development Report*, entitled *Sustainable Development in a Dynamic World* was required reading for the staff at NDRC (Fan, 2006). Furthermore, an Experts' Commission, comprising specialists from the government bureaucracy as well as leading economists, including those critical of government's policies, was established in the final stage of the drafting process of the Eleventh Five-Year Plan (Fan, 2006).

## ROLE OF PUBLIC OPINION IN THE PLANNING PROCESS

A recent article by Chinese academics Yan Yilong, Wang Shaoguang and Hu Angang from Beijing and Hong Kong, has highlighted the role of

public opinion in the formulation of the Five Year Plans. According to this article, the decision-making process in the formulation of China's five-year plans has undergone five stages of evolution:

- the first stage was of “collective decision making” within the party (from the first five year plan to the preliminary stages of second five year plan),
- the second stage was the “autocratic” decision making model (from later stages of second five year plan to fourth five year plan),
- the third stage has again reverted to “collective decision making” within the party (from fifth five year plan to sixth five year plan),
- the fourth stage was consultative decision making model (from seventh five year plan to ninth five year plan),
- the fifth stage is mass participatory/consultative model (from tenth five year plan to twelfth five year plan) (Yan, 2013)

Since the tenth plan there is an increasing participation by the general public and the decision making process has become more open and inclusive. This is sought to be achieved in the following ways:

### **1. Promoting Public consultation**

For the first time during the tenth five-year plan, through the method of calling for public suggestions, the NDRC agencies at the Centre and the provincial DRCs at their level, collected the advice, opinions and suggestions of the public. They received more than 1,70,00 letters and emails from the people of different walks of life. During the formulation of eleventh five year plan, through various channels, the NDRC openly solicited public opinion, and more than 5000 people came up with opinions and suggestions. During the formulation of the twelfth plan, apart from the NDRC's various channels for collecting public advice, the CCP's mass organizations like Association of

Industry and Commerce, Women's Federation etc, were also entrusted to conduct consultation processes, and they received 64,709 different types of suggestions. (Yan, 2013)

## **2. Seeking the public opinion through wide range of Research surveys and discussion forums**

Since the formulation of third five year plan itself, the concerned officials have given special attention to study and research. However, this research was mainly conducted by the people responsible for drafting the plans. After the tenth plan, research was extended to a broader scale and during the formulation of the twelfth five year plan, institutions like the Politburo Standing Committee, the National People's Congress, the Chinese People's Political Consultative Conference and the NDRC, all carried out different levels of research to know more about grass-roots views and the general public opinion. At the same time, Premier Wen Jiabao held a forum of representatives of the general public and lent ear to their opinions about the twelfth five year plan.

## **3. Increasing participation of foreign institutions and experts**

Foreign institutions have long been involved in the research of China's five year plans. As early as during the formulation period of the seventh five year plan, Deng Xiaoping invited the World Bank to conduct research on China's long-term development. And since the ninth five year plan, China has begun to pay great attention international experts' opinions. From the beginning of tenth five year plan, China also entrusted international institutions with carrying out preliminary studies. By the twelfth five year plan, foreign institutions through research projects, discussion forums and proactive suggestions etc, began to widely participate in the formulation of the plan.

#### **4. Increasing responsiveness to public dissatisfaction**

Yet another instance, in recent times of the government's responsiveness to public opinion has been demonstrated in the area of Environmental pollution and degradation. Alarmed by the deluge of ever-increasing public complaints online as well as the prospect of street protests over pollution, the Central government has announced measures to reduce its reliance on coal and set earlier targets to control the choking air pollution that is an increasing source of discontent for its citizens. It also sees an economic opportunity in developing and potentially exporting cleaner energy technology. Coal use for heating and industry was a key factor in the "airpocalypse" – several days of thick black haze that blanketed Beijing and the North China plain in the winter of 2012 and brought the issue of air pollution to the fore. A plan announced very recently builds around a commitment by Hebei province, which surrounds Beijing, to cut coal usage by 40m tons in 2017 compared with 2012, after months of negotiations with provincial officials wary of killing their industrial base. The cut is based on estimates of how much coal consumption could be eliminated by forcing small or antiquated steel, cement and other industrial plants to close. Steel capacity in the province will drop by 60m tons by 2017, the Hebei government pledged in a separate announcement. Nationwide, coal will fall to 65 per cent of primary energy use by 2017, from 66.8 per cent last year, according to the plan. Similar absolute targets are expected for the Yangtze River Delta and Pearl River Delta, China's two biggest manufacturing bases that are also home to the largest concentration of affluent urban citizens.

#### **5. Increasing openness of the decision making process**

Over the last three five year plan period, there has been increasing openness regarding the formulation of the five year plans as also public policy issues. They are widely written and reported about in the media and the

general public is involved through the holding of seminars, dissemination of scholarly essays, and posting messages on internet etc.

However, even as the Party and government have been edging towards greater public involvement and participation, decision making in this matter remains an elite-dominated and dictated process. Public participation and influence is still limited but the trends are certainly in the direction of greater inclusiveness.

## 12. APPENDIX VI: STATE OWNERSHIP AND MARKET

### COMPETITION

From the time that the PRC adopted the Plan system in the 1950s, to the present, the Chinese developmental model has been first and foremost, a strategy to facilitate China's rapid industrialization. After decades of experimentation and changes, a formal attempt was made to provide a structure marked by the creation of the **State Asset Supervision and Administration Commission** in 2003. The current Chinese Industrial System is characterized by the division of the industrial system into three different segments – working together but not impinging on each other too much – the large State-owned enterprises (SOEs), hybrid state-private medium and small firms and foreign-invested firms. The system functions on the basis of the following aspects:

- The model is one of 'mixed economy' where the **competitive sectors are primarily private**, but **government ownership plays the dominant role** in the noncompetitive sectors and a subsidiary role in several other sectors.
- The government ownership operates in the **context of market competition**. China's policy makers have built some competition into all of the sectors in which state ownership is prominent. In the central government monopoly sectors, there are always at least two firms competing [for example, there are three in telecom – China Mobile, Unicom and China Telecom] Firms have been split into competitors even in defense industries, where the government is the only real



customer, as in armaments or more radically, in the civil aviation sector, which is structured as a “dominant-player oligopoly” along with a competitive fringe: the central government-run Air China, China Southern, and China Eastern have to contend with Hainan Air, Dragonair and a few other minor players that keep the former on their toes. Rather than “free and fair” this is more of a “limited and managed” competition – and it does force the state firm managers to improve their performance.

- **Public Ownership is used to exploit market power and generate revenues for investment and public goods creation.** The Chinese experience has shown that **while some competition prevents the exploitation of the monopoly position, the limitation of competition ensures large oligopolistic profits** – the profitability of the Chinese state-owned firms has increased dramatically and consistently – helped by the closure of thousands of loss making firms during the late 1990s, raising the overall profitability. However structured competition is a precarious balancing act, that requires due cognizance of the market, combined with a willingness to tilt the scales in favour of the public interest.
- Given the necessity of investment-led growth, the Chinese government has **invested out ahead of demand, creating capacity that is gradually utilized.** Since the mid-1990s, China was investing around 32 to 33 percent of its GDP in new fixed assets; by 2004 it was investing 40 percent and more of its GDP. The most striking – but simple – expedient of allowing the SOEs to retain their after-tax profits, gave the firms strong incentives to increase profits. Flush with retained funds, China’s state firms poured money into expansion and new investment

projects (Naughton, 2008). China's incredible growth in the 2000s has retrospectively validated this high investment policy. Project after project that seemed at inception to be superfluous and wasteful, now hums along as part of China's booming economy. Undoubtedly, there has been overshooting – the 40 percent investment rates after 2004 are likely to prove too high - in recent times, it has embarked on a strategy of 'rebalancing', committing to greater consumption share of the GDP.

- Finally, the managers of the publicly owned corporations are motivated by tying their compensation to their company's performance in maximizing asset value.

The intertwining of public and private interests has been one of the most striking features throughout the reform process. There has been a strong tendency of investment by the Chinese government in ways that create spillover benefits for private parties. The Chinese state provides infrastructure services that are not (yet) economically justified and private actors take advantage of the opportunities created. As long as this occurs in the context of continuing economic growth, the government takes a benign view. Indeed in various ways, the Chinese state sector subsidizes huge swathes of the economy with cheap land deals and tax breaks for favoured sectors and innovation (Naughton in Hsu et al. 2011: 67-84)

### 13. APPENDIX VII: THE CCP AND “CRONY COMMUNISM”

The move from the plan to market in the developmental strategy of the PRC was begun with some very crucial and almost, *sui generis* aspects.

To begin with, and this fact must not be lost sight of, **the state has played a much more crucial role *vis-à-vis* the market in guiding and navigating China’s economic growth and the CCP has been the primary agent of socio-economic change, than was the case in other comparable cases.** Whether it was the launching of the market-oriented reform, holding it up and then reviving it in 1992, the commencement of systematic privatization in the latter half of the 1990s or China’s entry into the WTO in 2001, the Chinese state and the central leadership were “the most powerful driving force to open up a new phase of development, often well ahead of the maturation of relevant market conditions and the aspiration and demand from the industries....” In other words, **the Chinese state’s ultimate role has been “to nurture and accelerate marketization, liberalization and privatization, rather than replace them”** (Hsu in Hsu et al. 2011:4). Throughout the reform period, its support for the private sector has grown markedly and in the communiqué of the Fifth Plenum of the 15<sup>th</sup> Central Committee of the CCP in October 2000, it has pledged to “support, encourage and guide” the private sector. This pledge has also been part of the Chinese Constitution since 1988. In addition, it amended the state constitution in 2004 to protect private property and enacted a property rights law in 2004. **Institutionally, the CCP has created a variety of links with the private sector, including a variety of business associations - some affiliated with the CCP, others organized by the private entrepreneurs themselves** (Dickson in Hsu et al. 2011: 190). These allow the CCP to monitor the private sector and also allow the entrepreneurs to interact with and even lobby the government.

A second type of institutional link is the **network of party organisations that have been created in the private firms** (Ibid). It is necessary to bear in mind, that while the CCP has initiated reforms that have benefited the private sector, it did so as a means of boosting economic development and standards of living in general – not to satisfy the interests of the private sector. In the process, the private entrepreneurs have become millionaires – even billionaires – and contributed to the Goliath of corruption in China. **Rather than be locked in a confrontational relationship with the state, China’s entrepreneurial class and the CCP and government officials have developed a stable set of relationships that have been defined as “crony communism.”** (Ibid: 191) A large number of small and medium enterprises also flock around these ‘cronyist’ ties, which swells the number of the ‘red entrepreneurs’ continuously. Most crucially, this ‘crony communism’ is grounded in a symbiotic relationship between the CCP and the private sector, in which they count on each other to accomplish the shared goals of economic growth and of preserving political stability – at the same time. It is therefore quite self-perpetuating, since they are content with the mutually beneficial ties. Using state-driven industrial policies to expand the private economic sector, the CCP has installed a state-capitalist economy. (Wu, 2003).

## 14. APPENDIX VIII: PUBLIC PRIVATE PARTNERSHIP

While working on this project, a unique aspect of public and private partnership was uncovered, which aimed to study how the 12<sup>th</sup> Five-Year guidelines are organized and then formulated, which are the different actors involved in this process, and besides the general and regional plans, what are the other plans or areas where policy makers have started paying more attention within the 12<sup>th</sup> Five-Year guidelines in China. This research study was jointly conducted by the Beijing based Institute of Social Development Research (ISD) and NDRC, together with the collaboration and support provided by World Wildlife Fund (WWF). The focus of this research study was on the national plan, and special attention was given to how this planning is implemented at a large scale. WWF's objects related to the research conducted on the Chinese 12<sup>th</sup> Five-Year Plan include:

1. To provide information in relation to the process and structure for the formulation of China's Major plans and Programs between 2008-10, and onwards.
2. To provide a clarification as to where in the process, formal input for the different plans and programs are to be expected.
3. To provide a clarification when Chinese policy makers feel the need to look into different kinds of information, then relevant groups or departments are well informed on which information to provide at the right time to the policy makers.

Through this study, the ultimate aim of WWF was to develop reports and workshops between the Summer of 2008 till the 12th Five-Year guidelines were published. This eventually provided a supplementary forum for stakeholders, either from public or private sector, to integrate and implement sustainable development strategies into planning practice. This would ultimately decrease the gap between the intention and the actual implementation in the field of natural resources and energy within China.

*More information in relation to this study can be found on the following link:*

[www.pamlin.net/new/?publication=the-12th-five-year-plan](http://www.pamlin.net/new/?publication=the-12th-five-year-plan)

## 15. APPENDIX IX: CHINESE ECONOMIC ACHIEVEMENTS

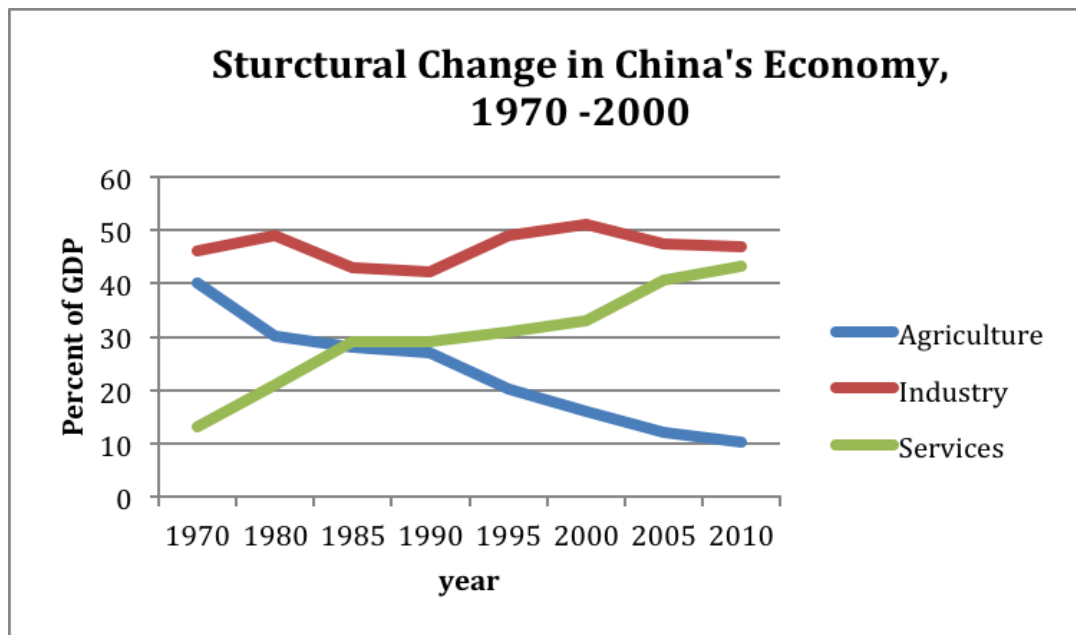
Starting at relatively low levels of income and consumption in the late 1970s, China's growth is noteworthy for its geographic spread as well as its speed and longevity. **Its average gross domestic product (GDP) growth increased from approximately 4% prior to the reforms to 9.5% during 1978-2005 to 10.4 between 2006 and 2012** (World Databank).

Furthermore, economists have assessed this growth as extensive (Young, 2003), meaning that the main motive force comes from adding more labor and capital to the production process. **Productivity improvement accelerated from 0.5 to 3.8% per annum after the reform, with productivity change accounting for 40.1% of overall GDP growth during 1978-2005 as opposed to 11.4% during 1952-1978.**

### Structural Change in China's Economy, 1970-2010

	1970	1980	1985	1990	1995	2000	2005	2010
Share in GDP (%)								
Agriculture	40	30	28	27	20	16	12.1	10.1
Industry	46	49	43	42	49	51	47.4	46.7
Services	13	21	29	29	31	33	40.5	43.2
Share in Employment (%)								
Agriculture	81	69	62	60	52	50	44.8	36.7
Industry	10	18	21	21	23	22.5	23.8	28.7
Services	9	13	17	19	25	22.7	31.4	34.6

Source: 1970-2000 Figures from Huang, Otsuka, and Rozelle.  
2005-2010 figures from the World Bank's World Databank.



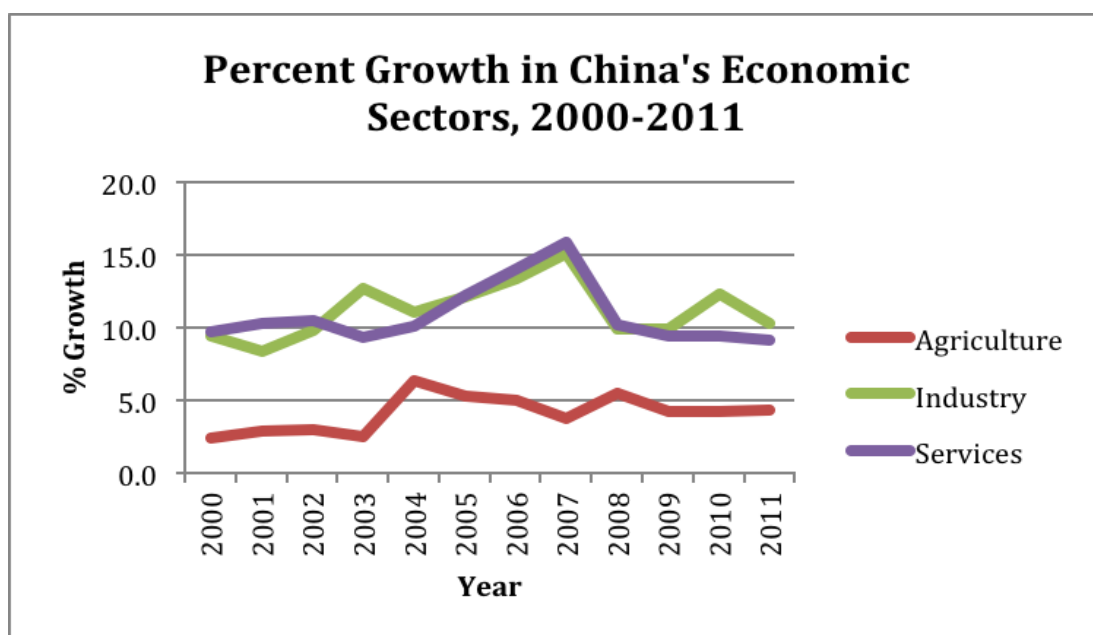
In comparative terms, prior to 1978, China's overall output grew somewhat faster than GDP in the United States and India, but lagged dramatically behind Japanese performance. After 1978, rapid expansion in China's relative economic size became the norm, pushing Chinese output from 37.5% of Japan's 1978 figure to 219.2% of Japan's 2004 GDP. We see similar trends in per capita GDP. China recorded slight gains with regard to India and the United States, but lagged far behind Japan and Korea. After 1978, the picture changed dramatically, with Chinese per capita income doubling its level relative to Korea and achieving even faster growth relative to India, Japan and the United States (Rawski et al, 2008).



## Percent Growth In China's Economic Sectors, 2000-2011

Year	Agriculture	Industry	Services
2000	2.4	9.4	9.7
2001	2.8	8.4	10.3
2002	2.9	9.8	10.5
2003	2.5	12.7	9.4
2004	6.3	11.1	10.1
2005	5.2	12.1	12.2
2006	5.0	13.4	14.1
2007	3.7	15.1	15.9
2008	5.4	9.9	10.2
2009	4.2	9.9	9.5
2010	4.2	12.3	9.5
2011	4.3	10.3	9.1

Source: World Bank's World Databank



Most accounts point to the gradual retreat from 'planning' as the centerpiece of the PRC's economic reforms since the late 1970s. This retreat from planning has culminated in a dominant role for market outcomes. Price determination, formerly concentrated in official hands, now reflects shifts in supply and demand. Data for 2000-2003 indicate **an 87% share of market pricing (as opposed to prices that are fixed or guided by government) for "means of production"; comparable figures for farm products and consumer goods exceed 90% (Li, 2006, pp. 104-106).** While exact and latest figures could not be obtained, in our discussions with the economists in Beijing and Guangzhou, we were informed that this continues to hold even today.

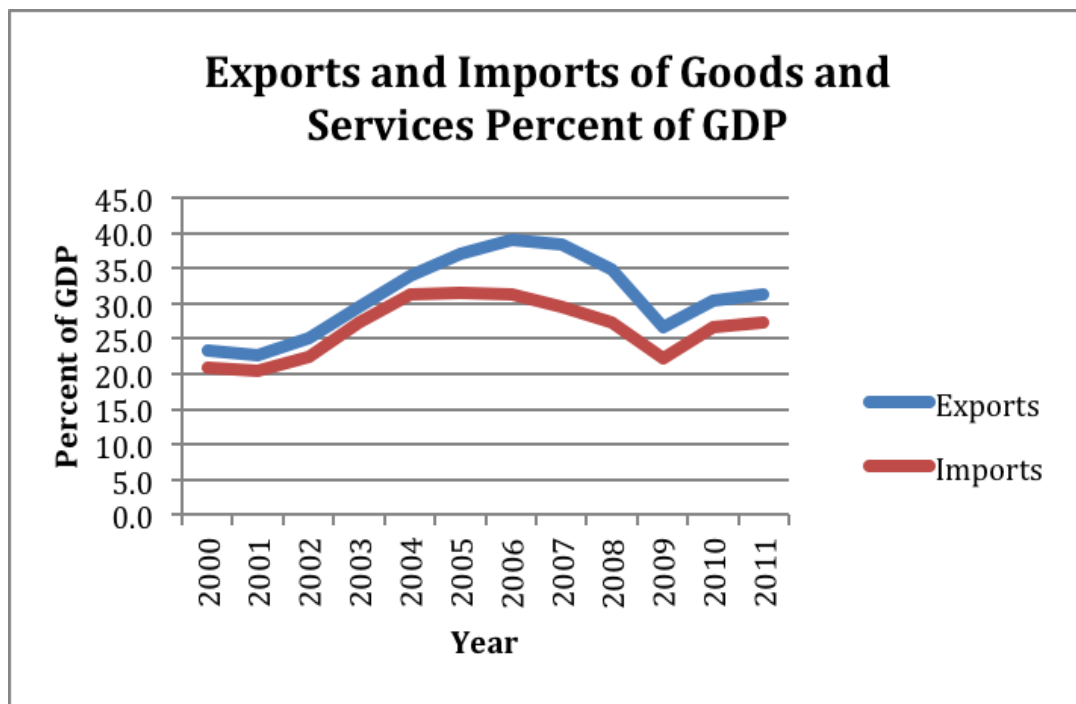
Despite the dominance of state ownership in finance, telecommunications, steel, petroleum, tobacco and other important sectors of the economy, private entrepreneurs continue to push into sectors formerly reserved for the public enterprises. The Organisation for Economic Cooperation and Development (OECD) estimates show **the private sector, which scarcely existed at the start of the reforms, accounting for 59.2% of China's gross GDP for 2003. (Loren and Rawski (2008:3). By 2011, the percentage had increased to roughly 70 percent.**

The most notable aspect of the Chinese economic growth over the last thirty years is the consistently high growth of investment. With a few exceptions, the annual growth rate of fixed asset investment is consistently higher than the annual growth rate of general domestic production (GDP). If we deconstruct China's GDP growth into the three components of consumption, investment and net export, we will find that investment has always made a significant contribution to China's economic growth.

## Exports and Imports of Goods and Services Percent of GDP

	Exports	Imports
2000	23.3	20.9
2001	22.6	20.5
2002	25.1	22.6
2003	29.6	27.4
2004	34.0	31.4
2005	37.1	31.6
2006	39.1	31.4
2007	38.4	29.6
2008	35.0	27.3
2009	26.7	22.3
2010	30.6	26.7
2011	31.4	27.3

Source: World Bank's World Databank



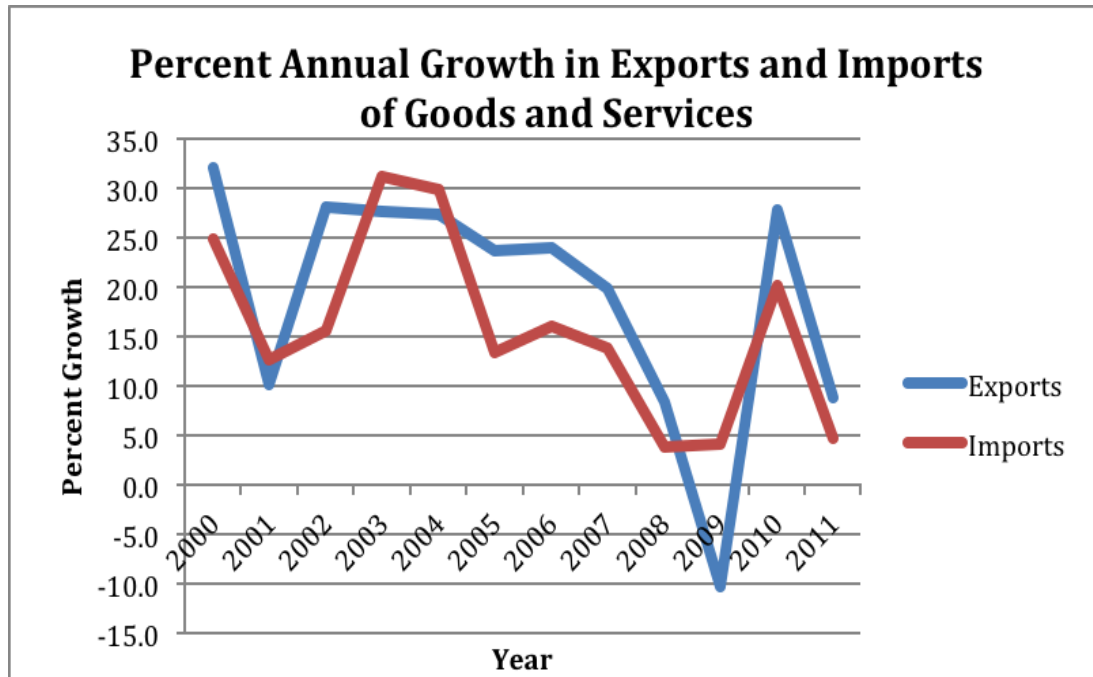
In the last five Five Year Plans (FYP), the contribution of investment has always been higher than 30%. Furthermore – and somewhat amazingly – as the Chinese people’s income has increased with the economic growth, the contribution of consumption has declined from 68.89 percent in the 6<sup>th</sup> FYP in the early 1980s to 40.43 percent in the 10<sup>th</sup> FYP in the first decade of the twenty-first century.

In contrast, the contribution of investment has increased from 33.73 percent to 56.05 percent at the same time. The general assumption that net exports would be the major contribution to China’s growth over the past decade is not borne out by the figures.

### Percent Annual Growth in Exports and Imports of Goods and Services

	Exports	Imports
2000	32.0	24.8
2001	10.1	12.7
2002	28.1	15.6
2003	27.6	31.2
2004	27.3	29.9
2005	23.7	13.4
2006	23.9	16.0
2007	19.8	13.9
2008	8.4	3.8
2009	-10.3	4.1
2010	27.7	20.1
2011	8.8	4.8

Source: World Bank's World Databank

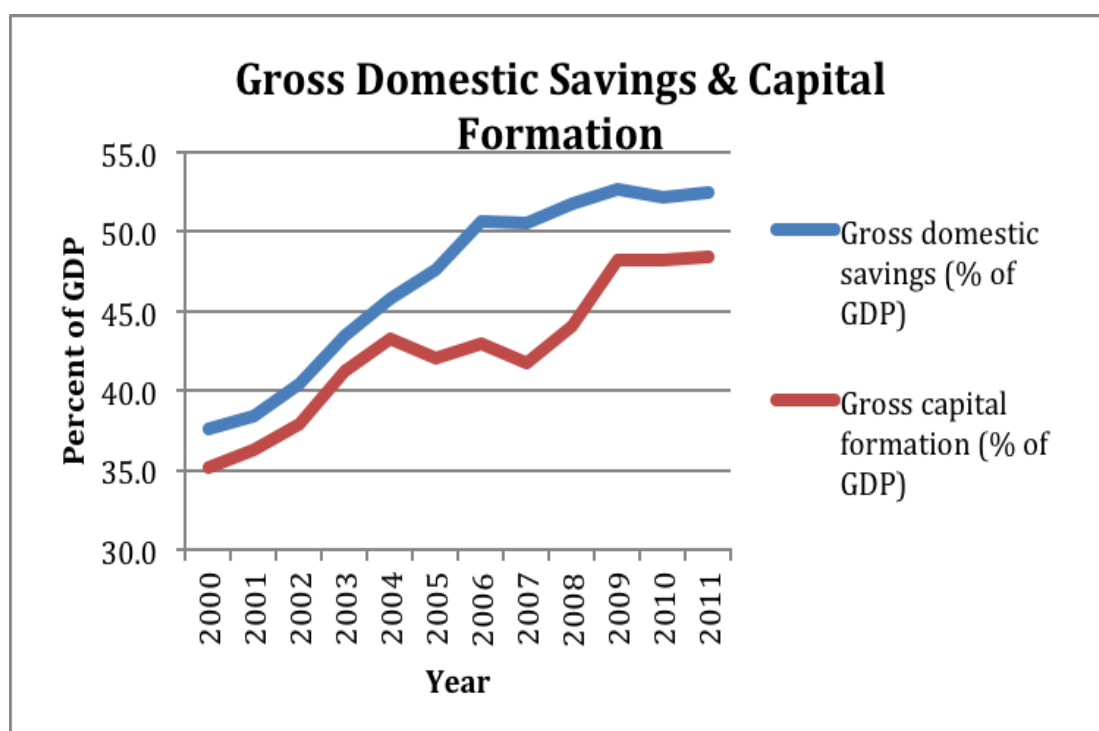


Though China achieved an average growth rate of 8.9 percent between 1996-2005, its net exports only contributed 1 percent while investment and consumption have contributed 3.9 and 4 percent respectively. **It is thus more a case of an investment-led model rather than an export-led one.** This oft-discussed *“investment hunger”* of government officials at all levels of the Chinese government, was largely financed by the extraordinarily high growth in domestic savings throughout the reform period. **With a few exceptions, the continuous growth of investment rate (investment/GDP) has always been matched by the growth of the saving rate (National Saving/GDP).**

## Gross Domestic Savings & Capital Formation

	Gross domestic savings (% of GDP)	Gross capital formation (% of GDP)
2000	37.5	35.1
2001	38.4	36.3
2002	40.4	37.9
2003	43.4	41.2
2004	45.8	43.3
2005	47.6	42.1
2006	50.7	43.0
2007	50.5	41.7
2008	51.8	44.0
2009	52.7	48.2
2010	52.1	48.2
2011	52.5	48.4

Source: The World Bank's World Databank



Besides cultural and demographic factors, state-led financial deepening (ie saving mobilization implemented by the state-owned banking system, capital controls and belated financial liberalization) should be given the credit for the achievement of the highest saving rate in the world.

In sum, the combination of authoritarian political power and bureaucratic meritocracy has been utilized to provide market-enhancing public goods. The provision of market-enhancing public goods in turn created an economic environment that is conducive to investment and export and thus resulted in rapid growth in exports, GDP and foreign reserves. All this has enhanced the political authority of the central government over the local political forces as well as over the SOE's. (Tao, in Hsu et al. 2011:124)



China's 12th Five-Year Plan marks a turning point from the country's previous emphasis on headline growth; China's leaders are now prioritising strategies and measures to ensure long-term prosperity for the entire nation.

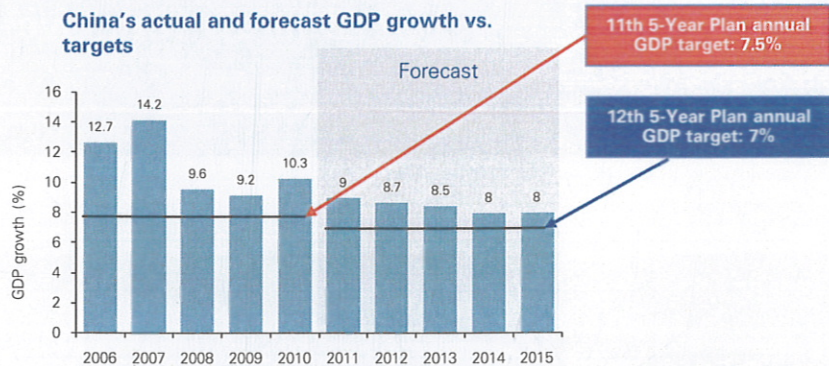
*We should not only make the cake of social wealth as big as possible, but also distribute the cake in a fair way and let everyone enjoy the fruits of reform and opening up*

- Premier Wen Jiabao, 27 February 2011

## China's plan for national economic and social development

- On 14 March 2011, China's National People's Congress approved a new national development programme for the next five years from 2011 to 2015; the themes and targets in the plan will now form the basis for industry-specific and provincial five year plans which will be rolled out over the next few months.
- China's 12th Five-Year Plan emphasises "higher quality growth"; the country's rapid development during the past 30 years has lifted millions of citizens out of poverty, but has raised the question of sustainability as China grapples with challenges such as pollution, intensive energy use, and resource depletion.
- According to President Hu Jintao, another important feature of the new plan is the concept of "inclusive growth", as China attempts to solve the issue of increasing wealth disparity.
- The government has set the new annual GDP target at 7 percent over the next five years, but industry analysts expect annual growth to exceed 8 percent; by comparison, the 11th Five-Year Plan called for annual growth of 7.5 percent (actual: around 11 percent).





#### Key themes

- Sustainable growth
- Moving up the value chain
- Reducing disparities
- Scientific development
- Environmental protection
- Energy efficiency
- Domestic consumption

#### Important goals in the plan

- Develop China's western regions
- Protect the environment and improve energy efficiency
- Continue transitioning to an economy driven by domestic consumption instead of exports
- Improve the lives of Chinese citizens
- Develop seven priority industries, with the aim of increasing their GDP contributions from 2 percent of GDP to 8 percent by 2015
  - three sectors align with the theme of sustainable growth: energy savings and environmental protection; new energy; and clean energy vehicles
  - the other areas are consistent with China's ambition to move up the value chain: biotechnology; new materials; new IT; and high-end manufacturing.

#### 12th Five-Year Plan vs. 11th Five-Year Plan: what is new?

- Housing target: develop 36 million units of affordable housing
- Two new pollution targets:
  - Nitrogen oxide: 10% reduction
  - Ammonia nitrogen: 10% reduction
- Wellbeing target: increase average life expectancy by one year
- Innovation target: 3.3 patents per 10,000 people
- Education target: increase high school enrollment ratio from 82.5% to 87%



#### China's 12th Five-Year Plan: Seven Priority Industries

- 1 New energy**
  - Nuclear, wind and solar power
- 2 Energy conservation and environmental protection**
  - Energy reduction targets
- 3 Biotechnology**
  - Drugs and medical devices
- 4 New materials**
  - Rare earths and high-end semiconductors
- 5 New IT**
  - Broadband networks, internet security infrastructure, network convergence
- 6 High-end equipment manufacturing**
  - Aerospace and telecom equipment
- 7 Clean energy vehicles**

### Key economic targets

- Annual GDP growth: 7%
- Increase urbanisation from 47.5% to 51.5%
- Increase service sector contribution to GDP by four percentage points, from 43% to 47%
- Increase spending on R&D to 2.2% of GDP
- Hold inflation (CPI) at or below 4% per year

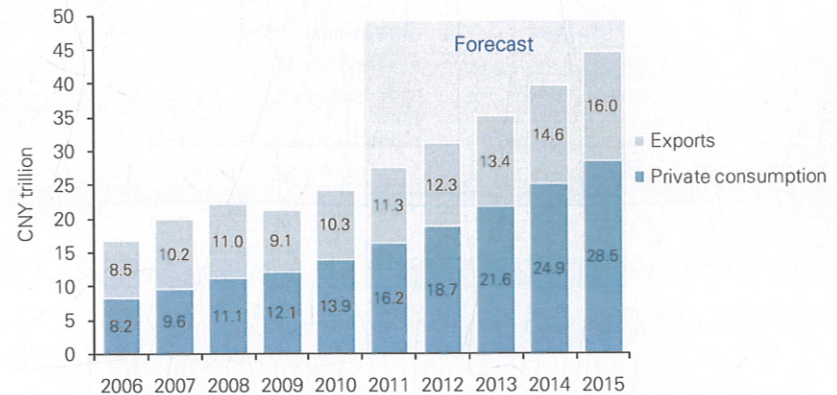
### Key non-economic targets

- Increase non-fossil fuel use to 11.4%
- Reduction of energy use per unit of GDP: 16%
- Reduction of CO<sub>2</sub> emissions per unit of GDP: 17%
- Increase forest coverage by 21.66%
- Decrease pollutants COD and sulfur dioxide by 8% each

### What important challenges will China tackle in the new plan?

- Domestic consumption as a percentage of GDP fell to 36 percent in 2009, compared to about 45 percent a decade earlier, and short of China's target. While private consumption (please see graph below) still surpassed exports in 2009, the goal is to continue establishing a macro-environment that encourages domestic spending.
- The growing gap between rich and poor is also addressed in the plan, partly by spurring income growth among Chinese workers. Some analysts predict that minimum wages will increase by more than 13 percent per year.
- Upgrading social welfare is a key initiative; specifically, increased state-supported education, health care and social security. These measures will reduce citizens' out-of-pocket expenses, and boost disposable income and consumer spending.
- Reduced energy use is a focus area in the 12th Five-Year Plan; industry experts believe China may push the use of non-fossil fuels to 15 percent of the country's total energy use by 2020. The 2015 target for non-fossil fuel is 11.4 percent.
- Funding earmarked for key areas: industry experts predict that the government will invest up to CNY4 trillion (about USD600 billion) to support areas such as IT, environmental protection, and scientific research.
- China's service sector output reached 43.4 percent of GDP in 2009 (11th Five-Year Plan target: 43.3 percent of GDP by 2010). Continued development of the service sector is an important element of the 12th Five-Year Plan.

**Private consumption vs. exports**  
(2006-2015)



Source: EIU



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- Low-end manufacturers may come under pressure as China shifts to higher value-added products and services; industries facing overcapacity will be forced to consolidate.
- Ordinary Chinese citizens are expected to enjoy a higher standard of living as their disposable incomes increase and service-sector jobs become more plentiful.
- The low carbon sector, and the other priority sectors identified in the plan, will benefit from increased investment and incentives.
- Companies may need to consider moving production and operations to cheaper inland regions as labour costs in coastal areas continue to rise.

**What can we expect in the immediate future?**

- The release of the national plan document is not the end of the planning process: we can expect a steady stream of industry and provincial five year plans and implementation details to be made public over the next few weeks and months.
- In addition, China has set the following targets for the 5YP's first year:

Goal	2011 target
Total retail sales of consumer goods	Increase 16%
Broad money supply (M2)	Increase 16%
Reduction in energy use	3.5% reduction per unit of GDP
Reduction in carbon dioxide emissions	3.5% reduction per unit of GDP
Emissions of sulfur dioxide and nitrogen oxide	Reduce 1.5%
CPI	Increase 4%
Total fixed-asset investment	Increase 18%

Sources: (1) National People's Congress, Government Work Report, 5 March 2011  
 (2) National Development and Reform Commission Report, 5 March 2011  
 (3) Other sources: Reuters, Xinhua, China Daily, APCO Worldwide, HSBC, WSJ, EIU

DISCLAIMER. The information herein has been obtained from public sources believed to be reliable. The views and opinions in this memo are those of the authors. KPMG makes no representation as to the accuracy or completeness of such information.

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## **Post-Script: Reforms and Restructuring within the NDRC over 2013-14**

The NDRC, often referred to as a 'Super-Ministry', saw a pronounced expansion in its power under directors Ma Kai (2003-08) and Zhang Ping (2008-13), through both the administrative reorganization of the State Council in 2008 and through a series of top-down delegations of responsibility from the State Council and the centralization of some of the powers previously held by the local-provincial governments. The central government's post-Financial Crisis stimulus package in 2009 also further aided in the augmentation of the NDRC's powers, as many of the investment projects all over the country were approved and coordinated by the body.

However, the year of 2013 saw a clear redefinition of the NDRC's role. With Xi Jinping and Li Keqiang taking over the leadership reins of the country after the 18<sup>th</sup> Congress of the Communist Party of China (CPC) in 2012, there has been renewed emphasis on further invigoration of the role of the market, in order to induce greater changes in the economy. Although there was heightened debate on the relevance of NDRC in such a context, the government did not come up with any firm decisions to signal its intentions either way. While the profile of the NDRC rose with its leadership having four Central Committee members from the CPC and the former director, Ma Kai being promoted as a Vice-Premier, questions remained on the future of the organization. **These were accentuated further by policy announcements after the Annual Session of the National People's Congress' (NPC) in March 2014. Premier Li Keqiang pledged the culling of 1700 existing**

**administrative approval items by at least one-third in five years, thus validating the need to move away from micro-management and adopting a broader, macro outlook in decision-making.** Furthermore, since 2013, the administration has eliminated or delegated 416 review and approval items, with the NDRC itself involved in 44 items (*China Daily*, 6 March, 2014). The emphasis had been to cut the red-tape as far as possible by reducing the amount of approvals needed for investment projects. The scaling down of the NDRC's role was further exemplified by the drastic reduction in the number of project approvals between January 1 and May 21 2013, wherein just 37 projects were granted; in contrast in 2012, a total of 40 projects were approved in a single day (April 19) (*Beijing Business Today*, May 21, 2013).

**But the most tangible marker for the reduction in the NDRC's prominence and power had come as early as November 2013, during the Third Plenum of the 18<sup>th</sup> Central Committee of the CPC.** Against the backdrop of the ongoing debates and discussions within the government and party circles on the need for furthering market reforms, the Plenum infused greater impetus to that thought-process. Calling for the deepening of reforms, a leading small group was constituted to work out the actual details and policies and specific measures from the general guidelines. Xi Jinping was named the leader of this group, and instructions were sent to the provincial and local governments to establish equivalent organizations that reported directly to the centre. Such a development was seen as circumventing the organization's wide network of local DRCs. **It is being increasingly realized that the greater the advent of market reforms, the lesser would be the powers and ambit of the NDRC. Such is the scenario that has been**

**envisaged in the aftermath of the Third Plenum at the highest levels of the fifth generation political leadership.**

In the changed context, the NDRC also was required to reformulate itself and work on reformulating its scope and visions. This was seen in the NDRC's significant intensification in the enforcement of China's Anti-Monopoly Law (AML). According to some analysts, "while the Ministry of Commerce (MOFCOM) and the State Administration for Industry and Commerce (SAIC), China's other AML regulators, also raised their enforcement, the actions of the NDRC reflected a degree of enthusiasm and even ferocity."

(*China Brief* -The Jamestown Foundation, Volume 14, Issue 5, March 6 2014. [http://www.jamestown.org/programs/chinabrief/single/?tx\\_ttnews%5Btt\\_news%5D=42057&tx\\_ttnews%5BbackPid%5D=25&cHash=8866680e4f4e57e8997beb2cfbaa7aaa#.UygDTT-Swg0](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=42057&tx_ttnews%5BbackPid%5D=25&cHash=8866680e4f4e57e8997beb2cfbaa7aaa#.UygDTT-Swg0)).

The NDRC also undertook measures to improve its public image, whereby monthly press conferences have been instituted, underscoring the emphasis on increased news and propaganda work. As part of increasing its outreach, the NDRC website has been in recent months redesigned and made more user-friendly.

While there were apprehensions within top-rung of the NDRC regarding these changes, more recent developments project the impression of a more settled picture, as the realization regarding the inevitability of the downsizing sets in. **The focus has been to invest the NDRC with more supervisory powers and comprehensively coordinating the reform of the economic system, rather than on its authorization of approvals.** In effect, this meant that



following the reforms, the NDRC would be concentrating heavily on macro and lightly on micro; more on planning and less on approvals. *The reforms are indicative of the realization within the leadership of the need to modify the substantial centralization of power inherent in the NDRC as a prerequisite to taking the market reforms to the next stage.*

(*China Brief* -The Jamestown Foundation, Volume 14, Issue 5, March 6 2014.

URL:

[http://www.jamestown.org/programs/chinabrief/single/?tx\\_ttnews%5Btt\\_news%5D=42057&tx\\_ttnews%5BbackPid%5D=25&cHash=8866680e4f4e57e8997beb2cfbaa7aaa#.UygDTT-Swg0](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=42057&tx_ttnews%5BbackPid%5D=25&cHash=8866680e4f4e57e8997beb2cfbaa7aaa#.UygDTT-Swg0)

**Rather than projecting it as a reduction or cessation of the state's role in the economy, the leadership in the post-Third Plenum (November 2013) and the post National People's Congress period (March 2014) seems to be indicating a reconfiguration of the economic trajectory to ensure long-term growth, which in turn provides legitimacy to the rule of the CPC.**

**It is evident that major changes are unfolding and even more are in the offing. A fresh study, exploring the current debates, the new modifications and amendments in the NDRC structure and the Planning Process itself, is strongly recommended to keep track of the transformation ahead.**