

THE DOUBLING PLAN OF CHINA'S NATIONAL INCOME IN 2010–2020: A TENTATIVE STUDY ON THE SUSTAINABILITY OF ECONOMIC GROWTH

В докладе на 18-м национальном съезде КПК была предложена цель построения к 2020 году среднезажиточного общества, для чего в Китае предполагается удвоить ВВП и доходы на душу населения для городских и сельских жителей по сравнению с 2010 годом. Обсуждаются возможности достижения этой цели с точки зрения перспектив политической и экономической систем, их адаптируемости, внутреннего спроса, с учетом ограничений для хода экономического развития, связанных с окружающей средой, населением и неравенством доходов. Автор полагает, что для того, чтобы экономический рост мог быть удвоен количественно и улучшен качественно, необходимо усилить реформы политической, экономической и социальной систем, несмотря на потенциальные институциональные преимущества и наличие устойчивого экономического роста в Китае.

Ключевые слова:

национальный доход, устойчивость, экономическая политика, экономические реформы в современном Китае, экономический рост.

It was proposed by the report to the 18th National Congress of the CPC that in order to complete the building of a Moderately Prosperous Society by 2020, GDP and per capita income of urban and rural residents should be doubled compared with their counterparts in 2010. Since China's economic aggregate has grown to rank as the 2nd largest in the world from 2010¹, the proposed goal is exciting for the public. Regardless of inflation, if only the GDP growth rate maintains at an average level of 7.2%, the goal can be automatically realized. As a matter of fact, the average growth rates of these indices have exceeded this appointed level so that they have been doubled by many times. According to the statistics in 1978-2010, GDP of 2010 was doubled by 26.78 times compared with that of 1978. At the same time, the doubling frequencies of per capita disposable income of urban residents and net per capita income of rural residents are respectively 25.8 and 25.47. From the perspective of data, the doubling frequencies of indices per capita are lagged to that of the total quantity index. Furthermore, compared with the latter, it seems like harder to double the former as it depends on the reform of income distribution including restructuring the distributional relationships among governments, enterprises, and individuals. In order to make the doubling plan work in 2010-2020, the question deserving dis-

cussion is not so much to figure out whether this plan can be realized as probe the sustainability of economic growth and the reform of income distribution. The framework of this article is thereby as follows: in the first part the author will discuss the fundamental conditions of realizing the doubling plan by 2020, the second one is devoted to probe the constraints of exercising this plan, and some policy suggestions will be given in the last one.

I. The Fundamental Conditions of Realizing the Doubling Plan by 2020

As mentioned above, one of the main purposes of this article is to examine whether the fundamental conditions of sustaining economic growth in terms of institution and inventory exist or not. Based on the existing literature and the author's personal observation, this article will reveal these fundamental conditions from the perspectives of political and economic system, self-adaptive and learning capacity, and potential of domestic demands.

1. Political and Economic System of China

It is no doubt that the political and economic system of China integrating political centralization with economic decentralization [5, p. 31] was contributed to the rapid growth in the past three decades.

Legislative power and power of personnel administration as the most important political

powers in contemporary China are centralized, which makes central government play a salient role in initiating and regulating reform. This institutional design is conducive to economic growth. Due to centralization of legislative power, the reforms of tax system have ever accelerated local economic growth and enhanced the fiscal extractive capacity of central government. Substantially speaking, the fiscal responsibility contract system implemented from 1980s through early 1990s helped to activate effectively the enthusiasm of local governments in promoting local economic development; the fiscal extractive capacity of central government enhanced by the tax-sharing arrangement conducted in 1994 strengthened the macro-regulatory capacity of central government which is an engine to steer the macro-economic development. With regard to power of personnel administration, the principle of “the Party is in charge of cadre management” and the cadre assessment system from top to bottom ensured governments at higher levels can credibly carry out administrative control, as well as rewards and punishment affairs. Such political centralization of China maintained the risk of rent-capturing or rent-competition among local governments at lower levels which was regarded as the main reason to favor growth compared with Russia [1, p. 172].

Fortunately, political centralization in China does not exclude economic decentralization. Central government gave up gradually political control over micro-economic decision-making which was deduced as de facto market-preserving federalism [20, p. 22]. The decentralization theories such as this theoretical model insisted that economic decentralization has raised the incentive of local cadres to accelerate local economic growth. Under the condition of planned economy, although right of business management was devolved in the administrative system by a couple of times, enterprises’ productivity did not break through. Since reform and opening up, through strategy of economic decentralization, governments at all levels had substantively transferred their rights of business management to enterprises which separated government functions from enterprise management. Furthermore, with the privatization of industrial sectors via enlarging the share of non-public sector in the economy, together with fiscal decentralization, the efficiency of resource allocation is improved [15, p. 18], the convergence of interest between local governments and enterprises is facilitated [21, p. 710], which are conducive to economic growth. Since the microeconomic entities have grown as the basic force of market economy, and mechanisms of price, com-

petition, supply and demand are established and improved, the fundamental role of market mechanism has made the economic aggregate and national income per capita multiplied by many times.

2. Self-adaptive and Learning Capacity

Sustainable economic growth in China was indebted to the self-adaptive and learning capacity of the party in power and its government which has manifested in the following ways:

- The evolution of the concept of development has been happening since reform and opening up. As a transition economy, in order to conquer the economic and social problems emerging in the development process, concept of development is the key of development strategy which has decisive effect on the development outcomes. Contrary to the Neoliberalism delegated by the Washington Consensus including privatization, deregulation, trade liberalization popular around the world, China proposed a series of concepts of development, such as “free up the mind, be realistic and pragmatic, looking forward united as one”, “focusing on the central task of economic construction”, “development is the absolute principle”, “balancing the relation among reform, development, and stability”, “transforming the mode of economic growth”, “sustainable growth”, “harmonious development among economy, society, population, resource, and environment”, “development is the primary task for the ruling party”, “transforming the mode of economic development”, “sound and rapid development”, “making the development achievements cover the whole population”, “scientific outlook on development with people-oriented, comprehensive, and harmonious, and sustainable development”, “beautiful China”. The strategies and policies guided by these concepts of development prevented China from falling into the Latin American trap, and formed gradually the pattern of China’s sustainable economic development.

- Gradual reform embodied by the concept of “learning by doing” can reduce the cost of economic-social transformation. Reforms have orderly spread from rural to urban area, from agriculture to industry, from industrial modernization to agricultural modernization, from reform of economic system to reform of political system, through reform of social management system. Although gradual reform has induced vested interest groups, solidified the dual-track system of urban and rural areas, widened the gap between the rich and the poor, the experiences cumulated from it are still the foundation of sustainable economic growth.

– Late-developing advantages derived from learning, referencing and absorbing advanced experiences will continue for a long time. The development history of the western economies in 19 century demonstrated that invention, innovation, learning by doing, and technical diffusion had played a vital role in improving social productivity [7]. As a developing country, China always faces weak educational foundation, shortage of infrastructure, lack of innovation dynamics in the facet of technical and institutional innovation. Although China has successfully improved its technology through the process of “introduction- imitation- improvement- innovation” in the initial stage of development, the key of technical progress is independent innovation as late-developing disadvantage is always accompanied with late-developing advantage. It was approved that only through independent innovation can China upgrade its industrial structure and realize “innovated in China” transferred from “made in China”. Only when economic value added is left behind does economic growth have substantial meaning to the local residents.

– The governments have powerful capacity of mobilizing resources to controlling external risks. For example, the central government of China has rapidly proposed a stimulus package worth 4 trillion Yuan against the global financial crisis of 2008, a detailed plan of energy-saving and ejection-decreasing to respond to climate change. Furthermore, the mobilization capacity in fighting against earthquake and other natural calamities also showed that the administration is so strong to increase the confidence of consumers, investors, producers, and the relative individuals which make sustainable economic growth possible.

– The transfer of policy focus from efficiency to social equity is a regulatory signal responding to the changing social demands which provided a chance to increase per capita income of urban and rural residents. High GDP growth rate does not consequentially cause growth of per capita income of residents, the former refers to speed embodied by efficiency, and the latter is income distribution

related to social equity. Prior to solving the income inequality, only high growth rate makes no sense. From the historical perspective, the policy inclination has been regulated from efficiency at the initial stage to social equity now (as showed in Table 1). At the beginning of reform, efficiency is certainly the primary consideration. The slogan “time is money, efficiency is life” had endowed all kinds of entities incentives to improve economic growth. Under the circumstances of high growth rate, as for some groups, especially monopolized industries and government-dominated sectors, personal income has been doubled by several times, while the ordinary people have experienced a different story. China’s administration has recognized that emphasizing speed has made much more negative outcomes, while social equity must be regarded as a new policy objective. The social equity-oriented principle helps to regulate distributional relationships among governments, enterprises, and individuals. With the gigantic economic aggregate, via the channels of primary distribution and redistribution, it is possible to make the development achievements cover the whole population, especially those vulnerable groups.

3. Potential of Domestic Demands

Domestic demands are deemed as reliable impetus of economic growth in unstable global economy. As showed in Chart 1, expenditure-based GDP is composed of final consumption expenditure and gross capital formation. Here, the former is made up of resident consumption (RC) and government consumption (GC), the latter consists of gross fixed capital formation (GFCF) and stock in trade (ST). As showed in Chart 2, domestic demands including final consumption expenditure (FCE) and gross capital formation (GCF) play an absolute role in contributing to the GDP. Expanding domestic demands thereby makes sense in improving economic growth.

Resident consumption is one direct impetus of accelerating economic growth. The gigantic population (1.341 billion at the end of 2010) of China and its high resident savings rate² are the advantage of expanding domestic demands. Aiming at mobilizing this advantage

Table 1

Evolution of Relations between Equity and Efficiency in China (1978 to Present)

- The 1st phase (1978-1984): to transcend egalitarianism and improve economic performance
- The 2nd phase (1984-1992): efficiency prior to equity
- The 3rd phase (1992-1993): to pay attention to efficiency and equity equivalently
- The 4th phase (1993-2006): efficiency is priority, and equity should also be considered
- The 5th phase (2006 to present): we should deal with the relation between efficiency and equity in distribution and redistribution, and pay more attention to equity in redistribution

Source: [4, pp. 47-48].

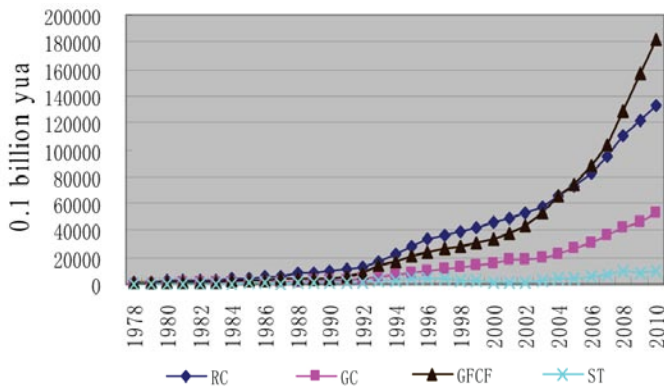


Chart 1. Components of Expenditure-based GDP (source: China's Statistics Yearbook 2011).

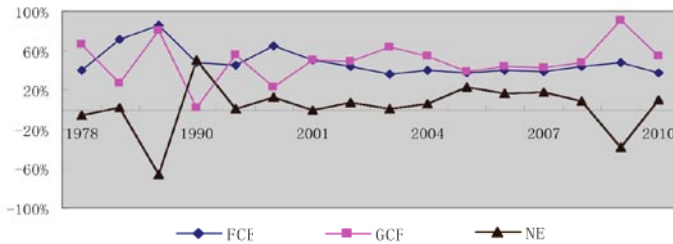


Chart 2. Contribution on Rate to GDP (source: China's Statistics Yearbook 2011).

and stirring up consumption-driven economy, there exists huge space in improving employment, income distribution, housing, education, public health, and social security by the governments at all levels.

Government consumption including general public service, defense, public security, education, social security, employment, public health, environmental protection, community affairs in urban and rural areas, affairs of agriculture, forest, and water, and etc. is another impetus of accelerating economic growth. As an important component of final consumption expenditure, government consumption plays a controversial role in competing with enterprise investment. There is a positive conclusion approved by an empirical study that the public investment of China in 1994-2007 had a crowding-in effect on private investment [11]. This reciprocal relation between public and private investment in China provide a god-given opportunity to stimulate gross capital formation which is pre-requisite for sustainable economic growth.

II. The Constraints of Exercising the Doubling Plan by 2020

Optimistically forecasting, the doubling plan in decade has been ensured by the foundation of economic growth. However, high speed of growth does not mean automatically

improvement of growth quality. It is necessary to discuss the constraints of exercising the doubling plan from the perspectives of mode of economic development, environment, population, and income inequality.

1. Transformation of Mode of Economic Development

Although the transformation from extensive to intensive growth has put in force several years, the following negative modes of economic development in China are still obvious which hold back its sustainable economic growth.

– Excessive heavy industrialization. Speed-oriented economic growth has initiated the process of heavy industrialization which has made an overdraft at the cost of environment-sacrificing. Heavy industries include energy, machinery manufacturing, electronic industry, chemistry, metallurgy, and architecture material. Taking the marker of energy consumption- standard coal for example, the equivalents are respectively 0.99, 1.31, 1.46, 2.36, and

3.07 billion tons in 1990, 1995, 2000, 2005, and 2009. The amount increased by 3.1 times with more and more pace in the past two decades. An influential debate on the road to industrialization of China in early 21 century demonstrated that China has entered into the process of heavy industrialization and will last for a long time. To be sure, developing heavy industries is a necessary approach in pursuing modernization. Nevertheless, excessive heavy industrialization inevitably results in environment pollution, resource depletion, land degradation, ecological devastation, and climate change [18, p. 198] which have negative effect on sustainable economic growth.

– Unsustainable resource-based industries. The fossil fuel and mineral including coal, petroleum, and natural gas belong to non-renewable resources which had evolved millions years ago. At the primary phase of economic development, in order to pursue a higher growth rate, on the one hand, non-renewable resources were generally overdeveloped³; on the other hand, renewable resources (such as wind, solar, biology, terrestrial heat, and ocean energy) were underdeveloped. Once the consumption rate of non-renewable resources exceeds that of renewable ones, and the superseded industry falls into blank after resource exhaustion, a series of social

8 | problems including unemployment, housing, and social security in resource-based areas will jeopardize the sustainability of economic development.

– Malformed export-oriented economy. The export-oriented economy can be measured by the index of foreign trade dependence. Since the year of 2001 when China entered the WTO, its export-oriented economy came into being gradually. According to the data issued by National Bureau of Statistics of China, although influenced by the global financial crisis spread from 2008, the maximum 65.17% of foreign trade dependence in 2006 decreased a little bit. With the recovery of global economy, the foreign trade dependence is still above 50%. It is no doubt that the global financial crisis or periodical economic fluctuation, shrinking of foreign market, prevalence of credit crisis, fluctuation of energy price and exchange rate have deadly negative effect on domestic economic growth.

– Feeble labor-intensive industry. Gigantic population is a comparative advantage of China which provides super consumption market and cheap labor force for economic growth. Although the cost of labor is increasing, some economists believed that if the productivity can be considered, the comparative advantage of labor-intensive industry does not disappear [8]. However, labor-intensive products have inherent disadvantages. For example, they are most likely to encounter trade protectionism, and their economic value added is relatively low. Under the circumstances of unstable global economy, the weakness of labor-intensive industry will endanger consequently China's sustainable economic growth.

– Manic real estate economy driven by land-based finance. Driven by land-based finance, real estate has become a pillar industry in local economic growth. One empirical study on a western city demonstrated that the share of land-related revenue in gross government revenue has increased from 10% in 1999 to 51% in 2003 [9, p. 84]. Another empirical study on an eastern town also approved that the average share of land-related revenue in extra-budgetary revenue is 80.55% in 2001-2009, and the average share of land-related revenue in disposable fiscal capacity is 67.24%, the figure even reached 91.11% in 2003 [14, pp. 29-30]. A report disclosed that "the ratio of the national land-related revenue in local finance is about 46%" [16]. There is a great deal of speculative bubbles in real estate market in China. Once capital or credit chain was broken, it is inevitable that the bubble of real estate will be dashed to the ground.

– Lagging upgrade of industrial structure. The amount of R&D of China in 2010 exceeded Japan and ranked the top second in the world [19]. Although the ratio of R&D in GDP, 1.39%, 1.40%, 1.47%, 1.70%, 1.76% in 2006-2010, is lower than Japan (3.3%), US (2.8%), Germany(2.4%), the absolute and relative figures resided on top rank in the world. In despite of these good-looking figures, the capacity of independent innovation is still weaken. Due to shortage of technological progress, the unreasonable industrial structure which embodied in the underdeveloped agriculture, energy-consuming industry, and low-grade tertiary industry is discouraging the sustainability of economic growth.

2. Environment

There are three typical hypotheses on the relation between environmental protection and economic growth according to the global experience. The first hypothesis is that there exists a paradox between economic growth and environmental protection [17, p. 250]. The environment pollution can spread from developed areas to undeveloped areas via industrial transfer so that it will affect the entire economy. The supposed solution to environmental protection thereby consists in depressing the speed of economic growth. This suggestion has not actually been adopted by local governments in China. The second hypothesis is that relation between economic growth and environmental degradation presents inverted U curve, which means in the stage of economic takeoff, disequilibrium of industrial structure, over-industrialization, low technical level, over-consumption, and distorted relation between government and market may induce environmental degradation, while in the long run, environmental protection will be stressed as the administration has realized what important the environment for sustainable growth is. According to this hypothesis, China is standing at the eve of transcending the inflexion of the inverted U curve. The third one is that economic growth and environmental protection can be integrated [13, p. 70], although it cannot be realized automatically. Under the circumstance of undeveloped technical and institutional constraints, environmental protection is only deemed as the primary objective of local Chinese governments in unwritten commitment so that environmental degradation has not been alleviated yet.

3. Population

In terms of China's low per capita occupancy volume of resources, overpopulation is an accomplished fact which gave pressure on sustainable economic growth.

On the one hand, gigantic population needs to consume much more food, energy,

and other resources. Mass consumption induced mass production which caused natural resource exhaustion, land degradation, deforestation, and species decreasing [18, p. 201], or environmental degradation [3, p. 173]. All of these things have more pressure on environmental and ecological systems.

On the other hand, poverty accompanying overpopulation has been a woeful scene of China. In the past 30 years, China has done much works on poverty reduction. Unfortunately, from the perspective of Gini coefficient, the situation of relative poverty has been stealthily emerging. Together with overpopulation, relative poverty is the biggest potential enemy of environment as it can inspire the enthusiasm of the public and governments to pursue the short-term rather than long-term economic goal which harms the sustainability of economic growth.

At the facet of controlling population growth, the policy of family planning has made much more progress. However, due to the gigantic basis of population, population growth has endangered the carrying capacity of China and restricted the sustainability of economic growth.

4. Income Inequality

Since reform and opening up, income gap of residents has been widened to such a degree that it constrained realization of doubling plan by 2020. Dichotomously, considerations of equity and inequity should be taken into consideration in the widening of income gap. The aim of reform of income distribution is to reduce and eliminate the factor of inequality. However, the existing system of income distribution failed to regulate the income inequality into a reasonable span. The negative consequences consisted of income inequality, such as rigid, invisible income increase of employees in monopolized industries, and state-owned enterprises, caused by the lagging reform of system of income distribution are challenging the income growth of vulnerable groups.

III. Some Policy Suggestions on How to Realize the Doubling Plan

As discussed above, the potential advantages of institution and inventory of sustainable economic growth in China still exist. However, considering the constraints including downfallen mode of economic development, deteriorated environment, decreasing bonus of population, and increasing income inequality, it is urgent to boost reforms of political, economic, and social systems for realizing the doubling plan. Generally speaking,

Firstly, China's administration should proceed to reform its political system under the premise of political stability so that the politi-

cal system doesn't constrain the reform of economic and social systems. Although gradual reform can decrease the resistance of reform via experiment, trial and error approach, improvement, generalization, the shortcomings of this pattern are obvious. Since the asynchronous reform with some lagging aspects will increase the uncoordinated cost, bonus of reform can not be attained [10, p. 4]. The exclusive solution is to coordinate reforms of political, economic, and social systems so that the collaborative effect can emerge.

Secondly, transforming the mode of economic development should be put in practice by balancing relations among economic growth, environmental protection, and political stability. Relying on excessive heavy industrialization, unsustainable resource-based industry, malformed export-oriented economy, feeble labor-intensive industry, manic real estate economy in China in the previous three decades may make the economy unsustainable. Updating industrial structure, balancing the development of urban and rural areas, fostering superseded industries, restructuring the labor-intensive industry, eliminating land-based finance will be the orientation of reform.

Thirdly, it is high time that governments at all levels should take some measures to strengthen environmental governance in the light of current environment pollution. "Treatment after pollution", "governing while polluting" don't comply with the logic of modern ecological civilization. By referencing to the advanced experience of foreign environmental governance, governments at all levels should play a dominant role in environmental protection. As a matched reform, the government performance evaluation system based on GDP must be abolished.

Fourthly, increasing the investment of human capital helps to broaden the foundation stone of economic growth. Population is a double-edged sword which not only plays a salient role in boosting domestic demands but also acts as an important power to dilute the achievements of economic development. One study based on the American data in 1929-1956 conducted by Schultz suggested that education accounted for 21-40% of national income growth, while 17-33% of income growth owed to the increase of educated labor force. Another study based on the American data in 1929-1957 also gained the similar conclusion [2, p. 450]. As a matter of fact, it is reasonable to pay more for the workers with higher education level and more fruitful experience [12, p. 39]. Therefore, increasing investment of human capital will translate human resources

10 | to human capital which is conducive to social productivity serving the sustainable economic growth.

Last but not least, reform of income distribution should be boosted to release domestic demands. Since reform and opening up, emphasizing on efficiency rather than social equity has widened the income gap which made resident consumption always stand at low lev-

el. Since unilaterally emphasizing efficiency is unreasonable, stressing social equity in primary distribution and redistribution should not also give up efficiency [6]. Only when social equity and efficiency are simultaneously considered, can domestic demands originating from residents, enterprises, and governments be motivated to encourage the doubling plan in terms of quantity and quality.

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¹ It is issued by the National Bureau of Statistics of China that the ranks of China's GDP in the world in 1978, 1990, 2000, 2005, 2009, 2010 are respectively the 10th, 11th, 6th, 5th, 3rd, 2nd, while the ranks of per capita gross national income are respectively the 175th(188), 178th(200), 141st(207), 128th(208), 125th(213), 121st(215).

² "As revealed by IMF, the resident savings rate in China has been enjoying top rank in the world since 1970s. The ratio of resident savings in GNP in 1990s was above 35%, and it reached 51% at the end of 2005, while the global average savings rate was only 19.7% at the same time. The gross saving balance has broken through 18 trillion RMB, and the savings rate ranked No.1, savings per capita exceeded 10, 000 Yuan." Please refer to: [22]

³ "Due to the high consumption rate, service life-span of mineral resources and demonstrated reserves of crude oil fluctuate from 29 to 150 years. The shortest is crude oil, only 29 years", "A Study on Nonrenewable Resources in China", March 9, 2007, http://www.cnfeol.com/news/internal_summary/20070309/08550015860.aspx.