

# Chapter 1

## The 16th Congress of the Communist Party of China and Prospects of Market Economy with Chinese Characteristics

### *Introduction*

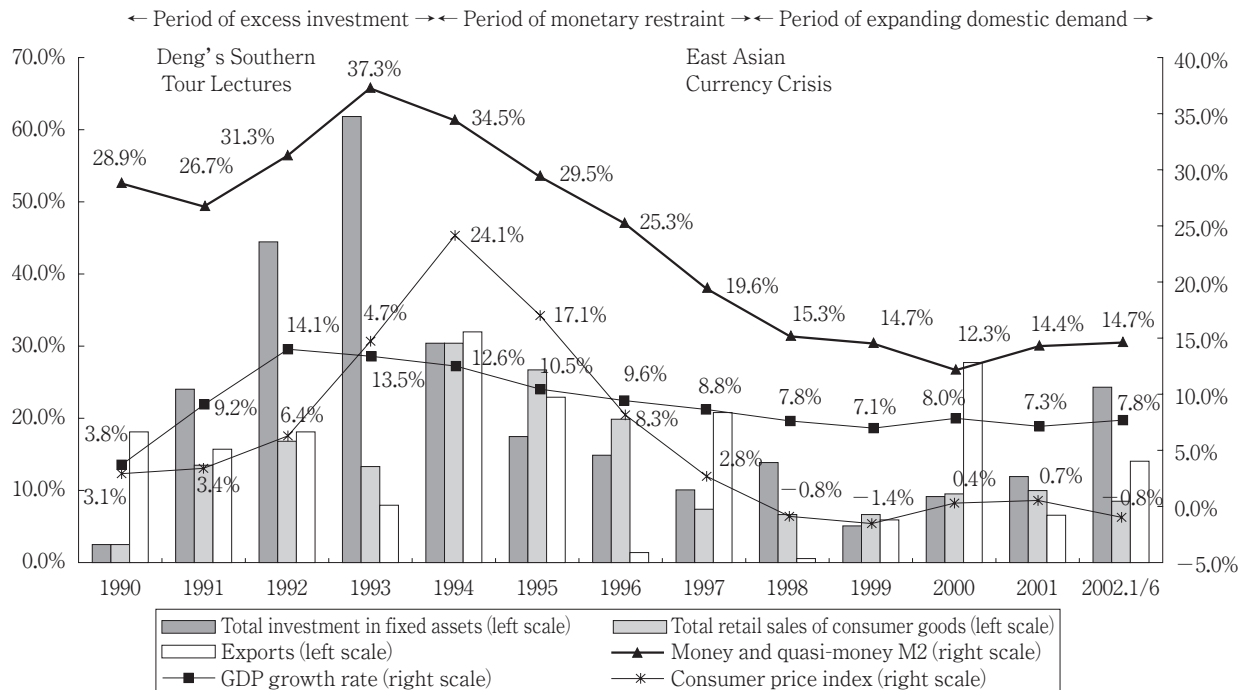
The 16th National Congress of the Communist Party of China (hereinafter referred to as the 16th National Congress of the CPC) realized major personnel reform as a result of the generational change in leaders. In addition, it proposed and approved the "Three Represents" as the new guiding principle for the CPC. This is the idea that the Communist Party represents the development trend of advanced productive force, the orientation of China's advanced culture and the fundamental interests of the overwhelming majority of the Chinese people. The purpose of this chapter is to review the impact of which the changes mentioned above will have on economic management and economic system reform hereafter.

Since the 15th National Congress of the CPC (1997), China has promoted reforms in various fields toward the goal of realizing "a socialist market economy," the market economy model of Chinese characteristics. The reforms have accelerated especially since the formation of the Zhu Rongji Cabinet (1998). However, it must be noted that at around the same time, the Chinese economy came to face new problems it had never confronted in the past. For one, its foreign exports, one of the three engines that had supported high growth until then, slumped as a result of the effects of the East Asian currency crisis in 1997. Another engine driving growth, domestic consumption, also became sluggish as the home electric appliance boom ran its course, resulting in an intensifying excess supply problem. It became evident that the whole economy had entered a period of structural change, with prices falling for the first time since China began reform and opening up. The time when it was enough to merely advo-

cate "a socialist market economy" as a slogan had passed. The realities of the concept were now being brought into question.

For the past few years, the authorities in charge of policy have been keeping economic conditions from slumping by issuing deficit-financing government bonds to support investment expansion, the third engine of growth. Their stance is to achieve structural adjustment of the economy while maintaining a growth rate of approximately 7% a year (Figure 1). As the Zhu Cabinet has asserted, the reason for this is that although reforms to achieve a market economy are urgently required, a moderate growth is necessary to execute such reforms. For example, although the restructuring of state-owned enterprises is unavoidable, new employment opportunities must be provided for the unemployed people that restructuring will produce. Otherwise, this would lead directly to social unrest<sup>1</sup>.

We should recognize that the 16th National Congress of the CPC was held under such complex conditions. Therefore, Section 1 of this chapter will compile and organize the changes in the economy since the previous National Congress, using the "socialist market economy" as the keyword. The following Sections 2 and 3 will evaluate the "Three Major Reforms" of the Zhu Rongji Cabinet, which aimed to create the framework for the market economy with Chinese characteristics, and list the main points of the Tenth Five-year Plan, which puts forth the long-term development vision for the 21st century resulting from Zhu's reforms. Section 4 will examine the results of the recent National Congress mainly concerning the field of economics and conclude by venturing to put forth an outlook for the future.

**Figure 1 Changing Rate of Major Economic Indicators (1990 to 2002)**

## 1.1 The Idea and Reality of a "Socialist Market Economy"

### 1.1.1 A Government-run Market Economy

The official explanation of a "socialist market economy" is: "An economy based on socialist public ownership in which the government executes macroeconomic regulations and the market fulfills its basic role in the distribution of resources." The report of the 15th National Congress of the CPC (September 1997) assumed that while being called a market economy, the public ownership sector, as represented by state-owned enterprises, would account for a large portion of the economy and that government's macroeconomic regulations would be carried out ("Let us raise high the banner of Deng Xiaoping's theory and push forward construction projects of Socialism with Chinese characteristics as the 21st century approaches." from "2000," compiled by the Central Party Literature Research Center).

By actually looking at the central government administrative organizations of that period we can see that the government agencies in charge of the economy were organized by industries, such as the Ministry of Power Industry, the Ministry of Coal Industry and the Ministry of Machine-Building Industry. This indicates a very strong planned economy bent. These ministries were granted the authority to oversee matters so that large enterprises in their respective industries properly invested state-owned assets and increased their value (from "1995," compiled by the General Office Secretariat of State Council and the Central Organization Committee of the CPC). On the basis of this authority, the respective government offices were able to readily intervene in corporate management. The core of the reform of state-owned enterprises was supposed to have been the "separation of enterprises from government" and making enterprises the leading players in a market economy. However, as we can see, in reality the government was in the dominant position.

On the other hand, the authority of the government offices that were in charge of macroeconomic regulations was weak. For example, in the case of the People's Bank of China, the country's central bank, the regional governments and CPC committees where bank branches were located had control over the right to decide personnel matters concerning branch managers. Here as well, it was difficult for the various bank branches to eliminate intervention by government and Party committees, making it a system in which the independence of financial policy could not be maintained.

In general, in both concept and reality the "socialist market economy" at the stage of the 15th National Congress of the CPC did not go beyond the framework of a market economy as "a primary stage of socialism" as proposed by Deng Xiaoping. A market economy was not the object then. It was merely to place emphasis on developing productivity using the means of a market economy in order to achieve an advanced stage of socialism.

### ***1.1.2 Transition Towards Market Economy and Internationalization of Economy***

Transition towards market economy and internationalization of economy broke down the framework mentioned above. As explained in Chapter 5 of this book, the presence of private and foreign-affiliated companies increased rapidly in the economy. However, as business conditions grew in severity for collective-owned enterprises, such as state-owned enterprises and township enterprises, CPC changed its posture to ownership of capital. In 1996, as the state-owned industry sector fell into its first general pure deficit since its foundation, the rearrangement of the state-owned sector became a major policy issue. Since the 15th National Congress report declared the reorganization of state-owned enterprises except the industries and fields forming the life vein of the state econ-

omy (no concrete examples given), there has been an increase in activities to privatize state-owned and collective-owned small and medium-sized enterprises throughout the country.

Based on the state-owned enterprise reform raised in the Zhu Rongji's "three major reforms" described in the next section, the Resolution of Fourth Plenary Session of the Fifteenth Central Committee of the CPC (September 1999, hereafter Resolution of 4th Plenary Session of the 15th Central Committee) determined the industry types and fields that should be controlled by the national economy: "industries related to national safety, natural monopoly industries, those providing vital public assets and essential enterprises belonging to pillar industries and hi-tech industries". On the other hand, the Resolution determined that "the focus of other areas should be reinforcing asset reconstruction and structural adjustment leading to the overall improvement in the standard of state-owned assets" ("Resolution Concerning Some Important Issues Related to Reform and Development of State-owned Enterprises" (published in Central Party Literature Research Center "2001"). It is expected that there will now be progress in the privatization of large-sized state-owned enterprises and the ideological biases of the CPC in regard to ownership will weaken in importance.

If the above can be said to have brought about the transition to market economy, the new developments of the financial reform at the time of the East Asian currency crisis was the spark for the move towards internationalization of economy. The debate concerning Reform in the financial system before this crisis, as explained in the previous section, was viewed from the perspective of preparing for macroeconomic control of the economy. However, following the crisis, when the effect that the crisis brought about in the Chinese economy was analyzed, the focus moved in earnest towards preparing the financial system to be opened to outside forces and the debate centered on speeding the resolution

of problems for which the crisis was the trigger, such as non-performing loans. This was a main theme in the speech by Prime Minister Zhu Rongji in the Working Conference on Finance in November of the same year, and "Notification Concerning the Deepening of the Financial Reform in the Central Party and General Office, Rectifying the Financial Order and Prevention of Financial Crisis" (published in Central Party Literature Research Center "2000").

## **1.2 Evaluation of the Zhu Rongji's "Three Major Reforms"**

### **1.2.1 Proposition of the "Three Major Reforms" and its Results**

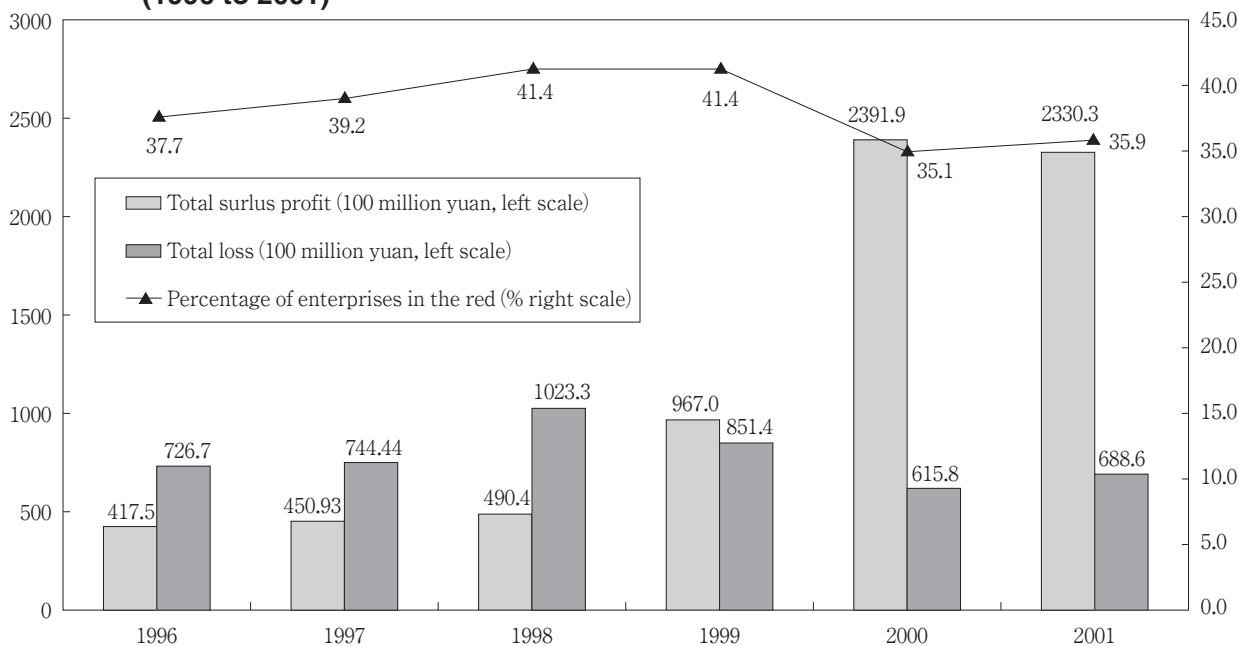
Zhu Rongji who sat in the seat of Prime Minister (Premier) following the departure of Li Peng in March 1998, tackled a number of problems mentioned in the previous section, aiming to prepare the framework of the market economy with Chinese characteristics to hail the "Three Major Reforms" (this expression is used in this chapter, although in the original language "sange daowei" = "realization of the three objectives"). This was made clear in a press conference (report in "People's Daily" March 20th 1998) immediately following his inauguration, with the main promise of economic management being to "ensure one objective" = "economic growth rate of 8%, inflation rate under 3% and not devaluing the Renminbi" and raising the three reform objectives being (1) reform of state-owned enterprises, (2) financial reform and (3) administrative reform. In concrete terms, (1) involves rescuing the large-sized state-owned enterprises who are in the red from their debt and establishing a modern enterprise system (in the original language a "xiandai qiye zhidu"), (2) refers to the strengthening of the functionality of the central banks (People's Bank of China) and establishing the business foundations for the four commercial banks separated from government con-

trol (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China), whereas (3) aims to reorganize the structure of the central government (State Council) and regional government including a large-scale reduction in personnel.

Looking from the economical framework perspective, (1) aims to create enterprises that will form the main body of the market economy, (2) refers to promote the transition towards market economy in the financial system, which are left behind to industrial fields, while at the same time establishing macroeconomic control measures for the economy. (3) aims to make administrative departments as applicable as possible to the realities of the market economy. These three items and the "five reforms" (food distribution system reform, investment and finance system reform, housing reform, medical system reform and financial administration reform), given at the same time, point to problems in areas outside the "three major reforms", referring to the reduction of deficit in the special account for food control, the prevention of duplicate investments, the commercialization of state-owned housing, the establishment of medical insurance and the prevention of various levies other than taxation respectively. Bringing all of these together, the economical framework envisaged by Prime Minister Zhu becomes clear. He adopted an aggressive stance, determined to "release these reforms within 3 years" and the reform mood grew swiftly within the country. But what were the results? Let us look at the "three major reforms" from the point of view of what they have achieved.

(1) Reform of state-owned enterprises - as shown in Figure 2, the state-owned industrial sector which was in a pure deficit as a whole in 1996 had recovered to a pure profit by 1999. This profit has been expanding ever since. Furthermore, the ratio of enterprises in the red has been gradually decreasing.

(2) There are four achievements from the fi-

**Figure 2 Business Conditions of State-owned and State-holding Industrial Enterprises (1996 to 2001)**

Source: Prepared by the author using the relevant yearly of the *China Statistical Yearbook* and *China Statistical Abstract*

financial reforms. The first is the strengthening of the "People's Bank". In concrete terms, there has been a merge and elevation of status for ministerial level branches with block branches (9 throughout the country) and an exclusion of personnel intervention by regional government and Communist party. Secondly, a scheme for processing the non-performing loans of the four large commercial banks has been defined. As shown in Table 1, financial capital is injected into each bank to strengthen capital with the non-performing loans for each banks being processed separately by the Asset Management Corp. Thirdly, there is the development of banks for policy funding (China Development Bank, Agricultural Bank of China and the Import and Export Bank of China) and lastly the liquidation of the poorly-managed financial institutions, such as the Trust and Investment Corp. in each region.

(3) Firstly, in regard to administrative reform of central government (State Council), a major slim down occurred with the number of organizations shrinking from 40 to

29 and number of personnel being halved 16,000 from 33,000 (Figure 3). According to the reports that followed, administrative reform of regional government saw the number of ministerial government employees cut by half and the employees in city, prefecture and township government being reduced by 20%, a reduction of 890,000 employees. The reduction of employees throughout the country last year was 1.15 million ("Chugoku Tsushin June 24th

**Table 1 Resolution Scheme for Non-performing Loan of Four Major Commercial Banks**

Bank (Investment amount by government)	Asset Management Corp.	Time of establishment, capital, non-performing loan (2000)
China Construction Bank (60billion yuan)	Xinda	1998 10billion yuan 250billion yuan
Bank of China (42.5billionyuan)	Dongfang	1998 10billion yuan 350billion yuan(estimated)
Agricultural Bank of China (93.3billion yuan)	Changcheng	1998 10billion yuan 250billion yuan(estimated)
Industrial and Commercial Bank of China (74.2billion yuan)	Huarong	1998 10billion yuan 500billion yuan(estimated)

Source: Compiled by the author

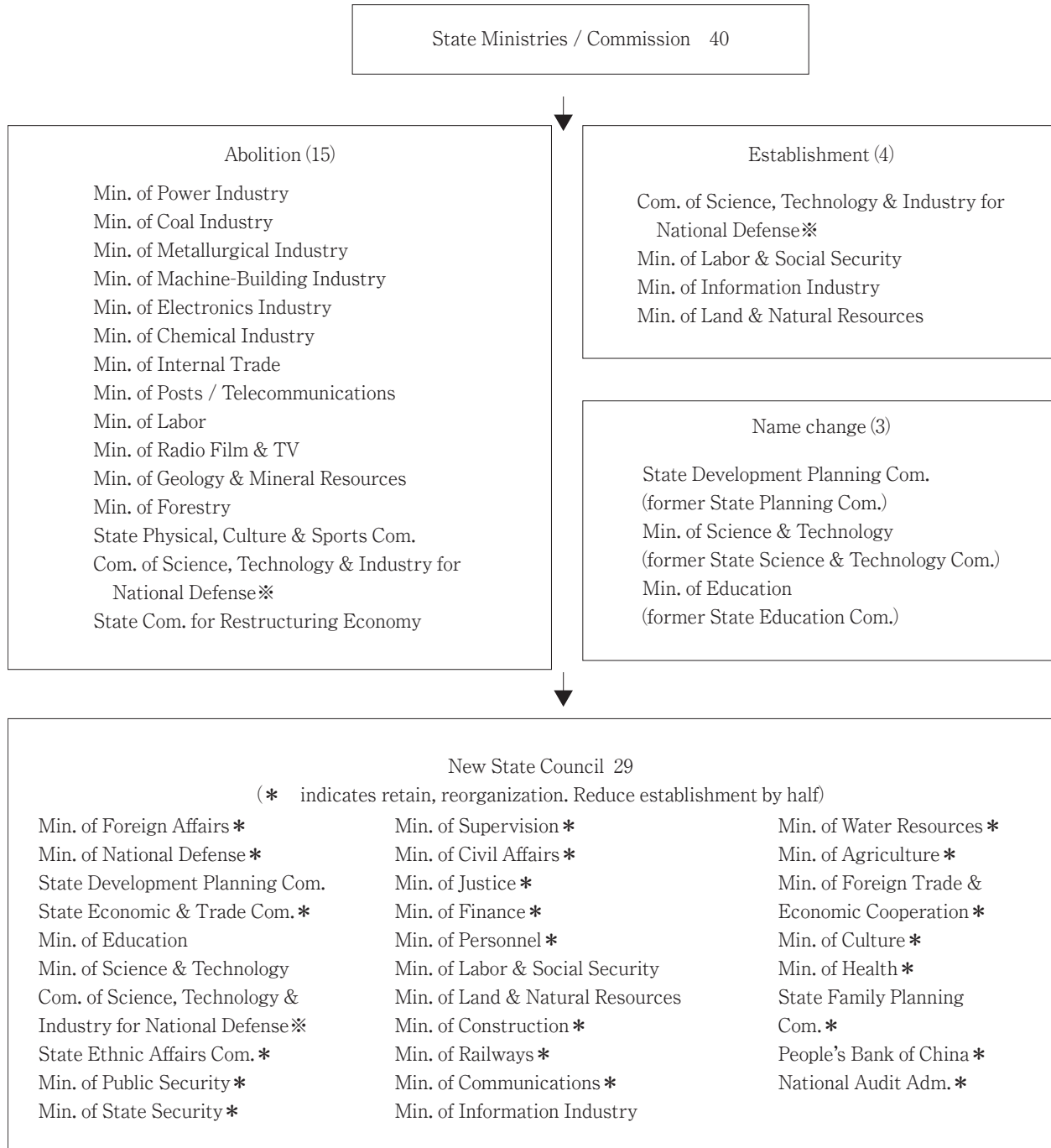
**Figure 3 Reorganization of the State Council in 1998**

<Rule of Administrative Reform>

“separation of enterprises from government”: change the role of government

“streamlined administration”: reduce establishment by half (33thousands→16thousands)

eliminate duplicated administration, strengthen the role of law



Note : Com. of Science, Technology & Industry of National Defense (※) succeed to the administration of defense industry from former Com. and National Defense Dept. of State Planning Com.

Source: Compiled by the author.

2002) . Secondly, there was progress in applying government functions to the market economy. The State Economic and Trade Commission is a good example of this, absorbing government offices for each industry, and creating a structure to promote industrial policy in a unified way (Note: In March 2003 National People's Congress abolished this commission and transferred its functions to new commission).

However, these radical reforms emerged new problems and certain aspects have remained unresolved.

- (1) Reform of state-owned enterprise led to a large-scale reduction in personnel. When the restructuring hit its peak, between the years of 1997~2000, there were approximately 12 million layoffs (original word "xiagang") a year. In the year 2000, when a certain percentage managed to find alternative employment the total number of layoffs was 9.11 million ("China Labour Statistical Yearbook 2001"). If we add the actual unemployment rate in the city areas to the registered number of unemployed people in the city as obtained by the "China Statistical Yearbook" and calculate it is approximately 7% (more than double the registered unemployment rate of 3.1%). This high unemployment rate is a major burden on society, although we can see the advances in the establishment of a social welfare system, as touched upon in section 3.
- (2) During the financial reform, the total of non-performing loans moving from the four large commercial banks to the Asset Management Corp in the year 2000 was 1.35 trillion Renminbi, a staggering 15.3% of GDP. Since then it has been reported that the processing of the loans has not been going very smoothly. Further, it is necessary to mention that in the liquidation of the Trust and Investment Corp, non-performance of debt occurred in relation to foreign-affiliated financial institutions impaired China's credibility.

- (3) Administrative reform produced noticeable results in a numerical sense but was partly involved in the creation of unemployment. Further, many of those personnel cut found places with favored related enterprises and from the enterprise's point of view they did nothing to ease the problem of increasing surplus workforce.

### ***1.2.2 The Elicitation of Deflation and the Policy Changeover to Expand Domestic Demand***

A problem also common to the "three major reforms" that should be raised is additional deflationary pressure caused by them, accentuating the deflationary trends seen in the economy at that time. As stated at the beginning of this Chapter, the Chinese economy that had fallen into a state of surplus supply since the middle of the 1990's, now faced the prospect of deflation as a result of poor exports and stagnation in consumer spending. You can see from Figure 1 that consumer prices recorded a minus increase from the middle of 1997 to the middle of 2000.

However, the changeover in government policy was delayed. The causes of this delay were as followed. Firstly, the Ninth Five-year Plan (1996~2000) adopted restrictive financial and monetary policies in order to suppress inflation. As a result, even when the deflationary trends became obvious, it was not possible to respond in an agile fashion. The second reason was that the effects of the East Asian currency crisis were underestimated. We had to wait until 1998, when the growth in exports swiftly fell, for this evaluation to change. Thirdly, as has already been described, the Zhu Rongji cabinet strongly look forward the reform. In order to be a turnaround in policy, the government had to realize that reform could not be promoted in the midst of such economic stagnation. In August 1998, debt-covering bonds worth 100 billion Renminbi were issued as the first real measure to stimulate domestic demand. Fol-

lowing this, between 100~150 billion Renminbi a year of government bonds were issued on an annual basis until 2002. This had the effect of pulling the economic growth rate up by approximately 1.5~2.0%. The stance of promoting reforms whilst maintaining an appropriate level of growth was continued in the Tenth Five-year Plan, which started from 2001.

The proposition of the "Western Development Strategy" gained attention from its relationship with the policies to expand domestic demand. The West = inland region problem, alongside the problem of farming village became a major issue related to the total period of reform and opening-up, although in actual fact it was pushed to the back burner in the development strategy which focusing on efficiency. The background of why this problem was raised at this time is that in addition to the disparity between regions became a political issue, and raising the level of inland economy was thought to be efficient by expanding domestic demand to realize sustainable economic development.<sup>2</sup>

### 1.3 Main Points of the Tenth Five-year Plan

#### 1.3.1 Return to the Supremacy of Development

The aims for economic management and economic reforms mentioned above are summarized in the Tenth Five-year Plan (2001 ~05 , "Outline of P.R.China's Tenth Five-year Plan for National Economic and Social Development", "People's Daily" March 18<sup>th</sup> 2001, hereafter "tenth five-year plan") and it includes a similar approach that taken in the report of the 16th National Congress of the CPC. In this section, we will examine the content of the plan in more detail from this perspective. Firstly, the main plan indices are shown in comparison to the 2000 year-end achievements in Table 2.

The first aspect to catch the eye in the tenth five-year plan is the return to the certain approach of Deng Xiaoping that "development is the fundamental principle". This is expressed in the plan as "development is

**Table 2 Major Targets of the Tenth Five-Year Plan (2001 to 2005)**

Field	Indicator	Remarks (Performance in 2000 unless stated otherwise)
Growth Rate	7% per year	8.3% (1996 to 2000 average)
GDP Total	12.5 trillion yuan (\$1.5 trillion) Per capita: \$1,100 2010: 17.88 trillion yuan (\$2.16 trillion)	8.94 trillion yuan (\$1.08 trillion) Per capita: \$850
Composition by industry	Primary industry: 13%, Second industry: 51%, Tertiary industry: 36%	Primary industry: 15.9%, Second industry: 50.9%, Tertiary industry: 33.2%
Composition of employed persons by industry	Primary industry: 44%, Second industry: 23%, Tertiary industry: 33%	Primary industry: 50%, Second industry: 22.5%, Tertiary industry: 27.5%
Capital formation rate	Approximately 35%	38.6% (1995 to 1999 average)
Consumption propensity	Approximately 50%	
Total exports and imports	\$680 billion (1.43 times compared with 2000)	\$474.3 billion
Registered unemployment rate in urban areas	Approximately 5%	3.1%
Population	1,330,000,000	1,265,830,000
Cultivated areas	128 million ha	130.04 million ha
Length of railways in operation	75,000 km	68,600 km
Total length of highways Expressways	1.6 million km 25,000 km	1.4027 million km 16,167 km

Source: Prepared by the author using the relevant reports.

the main theme" (tenth five-year plan Chapter 1). Against this background, it is regrettable that the growth during the period of the ninth five-year plan (1996~2000) averaged 8.3%, noticeably less than the 11.6% seen during the period (1991~95) of the eighth five-year plan. The only that growth fell below this following the reform and opening-up period was the 7.9% seen during the seventh five-year plan (1968~90), where a cooling of the economy was seen as a result of the "Tiananmen incident on June 4<sup>th</sup>" (June 1989). Further, as explained in the previous section, this growth rate was finally achieved through the large-scale issue of deficit-covering bonds. The planned GDP growth rate was "an approximate average of 7% a year" with the aim of "doubling the year 2000 level by 2010". The actual forecast is growth of over 7.2% a year.

### **1.3.2 Focus on Adjusting the Economic Structure**

The second aspect to catch the eye is that economic structural adjustment is positioned as a main pillar of development. In the tenth five-year plan, there is the recognition that "we are already at the stage in our country where unless we move to economic adjustment, we cannot plan for economic growth" and there is a need to take an all-encompassing approach to the adjustment of industrial structures, ownership structures (structure of each type of ownership), the economic structure between regions, and city and farming village structure. Among the above, there is particular mention in Chapter 2 of figure objectives in the labor power transition from primary industries to other industries, particularly tertiary industries. Details of the others can be found in the relevant sections of the main text.

Firstly, in regard to the ownership structure problems (structure of each type of ownership, the intention for state-owned enterprises to withdraw from all industries except

specific industries and support the development of collective ownership, private and individual business enterprises, in line with the thinking of the Resolution of 4th Plenary Session of the 15th Central Committee, was clearly stated. As a result, the description (Chapter 16) is based around "abolishing all illogical regulations stipulating on corporate and private investment and that the same treatment be afforded to a variety of ownership systems in all aspects, such as market entry, land use, loans, taxation and being listed on the stock market".

Next, in regard to the economic structure between regions as seen in the first chapter (Chapter 8), the acceleration of development in the western regions, in line with the "Western Development Strategy" and the reconfirmation of the approach for reducing the disparity between regions, it also touches on the development strategies between the central region and the western region.<sup>3</sup> Finally, in regard to the structure of city and farming villages, it is suggested that the promotion of urbanization in rural areas was a result of the easing of restrictions on population migration from farming villages to cities (Chapter 9).

### **1.3.3 Development on the Driving Force of Reform and Opening-up, Science and Technology**

The third aspect catch the eye is that the necessity of promoting reform has been emphasized from the perspective of developing productivity. This is expressed clearly in terms of "boldly searching and bravely promoting innovation, breaking down the systematic obstacles that influence the development of productivity and moving gradually to a perfect socialist market system." (at the front of Chapter 16). In terms of actual content, in addition to the restructuring of state-owned enterprise as already stated and the substantial improvement, the development of non-state owned enterprise is affirmed, whereas de-

bates over right and wrong are left aside. Further, as concerns opening-up in Chapter 17, it is stated that the chance of becoming a member of the WTO should be taken and that by tackling fully the tasks required for preparing for membership and the transition period, the level of opening-up should be raised. In the cases of both reform and opening-up, it is recognized that system reform is the driving force behind development. It has also been pointed out that innovations in science and technology are vital to provide the physical guarantee for development (Chapter 10) .

### **1.3.4 Consideration of Public Life and Natural Resource Issues**

The fourth aspect that catch the eye is that in addition to pushing to the foreground the supremacy of development, consideration of public life is also emphasized. Improvement of public life is one of the original objectives of economic development. However, as we have moved from the age of planned economy to the age of reform and opening-up, it is noticeable that this perspective has seldom taken much attention. Among these, statements such as "we must particularly work to raise the income of farmers and low income workers in the city" demonstrate that measures to deal with layers that left behind development are crucial. In relation to the unemployment problems that have been per-

petuated by progress in reform, in addition to executing economic policies favorable to the expansion of employment and social policies, "speed up the establishment of a social security system" (Chapter 1).

The fifth aspect that catch the eye is that along with economic development, we must focus on ever more crucial natural environment problems, and the strategic securing of natural resources, such as food, water and oil. This point is that we must maintain "sustainable development". With the traditional energy and resource high-consumption economics, it will be difficult to sustain future development and a low energy, low resource, low water consumption style of economics must be discovered (Chapters 14 and 15).

## **1.4 Aiming for Building a "Well-off Society" in an all-round way**

### **1.4.1 New Society, New Guiding Principle**

The Jiang Zemin report on the 16th National Congress of the CPC is entitled "Building a Well-off Society in an all-round way and Forging a New Aspect for Socialism with Chinese Characteristics" ("People's Daily" November 18<sup>th</sup> 2002). Table 3 shows this report alongside that from the 15th National Congress. Taking it for granted that the "three represents" concept is taken as a priority, the

**Table 3 Compositions of the 16th National Congress Report and the 15th National Congress Report**

16th National Congress Report	15th National Congress Report
1. Work of the past 5 years and basic experiences of 13 years	1. Review and outlook at the turn of the century
2. Implement the important thought of "Three Represents" in an all-round way	2. Work of the past 5 years
3. Objectives of building a "well-off" society in an all-round way	3. Historical position and leadership role of Deng Xiaoping's doctrine
4. Economic development and restructuring	4. Basic line and code of the primary stage of socialism
5. Political development and restructuring	5. Economic restructuring and economic development strategy
6. Cultural development and restructuring	6. Political restructuring and building of a democratic legal system
7. National defense and army building	7. Building of a socialist culture with Chinese characteristics
8. "One country, two systems" and complete national reunification	8. Promotion of peaceful national reunification
9. The international situation and our external work	9. The international situation and our external policy
10. Strengthen and improve party building	10. Communist Party of China in the new century

Source: prepared by the author from the 15th National Congress Report and the 16th National Congress Report

initial objective after following this new guiding principle is the quantitative goal of "quadrupling the year 2000 GDP by 2020" and the qualitative goal is given as the "building a well-off society in an all-round way".

The logic of this is that Deng Xiaoping made a "commitment" for quadruple growth during the early stages of the reform and opening-up. This closely resembles the "primary level of socialism" in the 15th National Congress report in which the "three advantages" are given as a standard to judge all policies (advantage of developing productivity in a socialist society, advantage of general national strength in a socialist state and the advantage of improving the level of public life. The meaning of advantage in this case is contribution). If we read the objectives of the "three advantages" as the "development of productivity, generally raising the national power of the state and improving the standard of public life", we can at once see the similarity with the "Three Represents". All that is different is that in the previous standard (GDP of 800 dollars per capita. Statement by Deng Xiaoping in 1984) the objective of being "well-off" is already achieved, and should be replaced with the objective to "building a well-off society in an all-round way". The thought of "Three Represents" defines as the guiding principle for an age that can fulfill this new objective.

About the image of "building a well-off society in an all-round way", the following characteristics are raised:

- (1) Achieve industrialization and establish a full-fledged socialist market economy and a more open and viable economic system.
- (2) Improve differences between industry and agriculture, between urban areas and rural areas and between regions.
- (3) Establish a social security system
- (4) Realize the socialist democracy and socialist legal system and a constitutional government.
- (5) Improve the cultural and health standards of the whole people.
- (6) Strengthen the capability of sustainable

development including improvement of ecological environment and efficiency in the use of natural resources.

In the phrase "keep pace with the times" (original language "yu shi ju jin") and the even more commonly used term "bring forth new ideas" there is the aim to strengthen the impression that the thought of "Three Represents" signifies as a new guiding principle which compatible with the new age. In the report, "keep pace with the times" is mentioned 9 times and "bring forth new ideas" is used 33 times (according to the analysis in "bright points, characteristics and key points" published in "Xinmin Weekly" 2002, edition 46). In actual fact, an exalted feeling is expressed when invoking this new thought from the relevant section of the report (2. Implement the Important thought of "Three Represents" in an All-round Way).

#### **1.4.2 Maintaining the Existing Policy Line to Building the Economy**

In the section of the report on economic policy (4. Economic Development and Restructuring) the following eight policy pillars have been erected.

- (1) Take a new road to industrialization and implement the strategy of rejuvenating the country through science and education and that of sustainable development.
- (2) Make the rural economy flourish and speed up urbanization.
- (3) Advance the Western Development Strategy and bring about a coordinated development regional economies.
- (4) Stick to and improve the basic economic system and deepen the reform of the state property management system.
- (5) Improve the modern market system and tighten and improve macroeconomic control.
- (6) Deepen the reform of the income distribution system and improve the social security system.

- (7) Do a better job in opening-up by "bringing in (foreign investment)" and "(domestic enterprises) going out".
- (8) Do everything possible to create more jobs and improve the people lives.

The policies raised here are not exactly new ones. The individual items themselves were already specified as focal points in the tenth five-year plan. However, it should be noted that the report gives prior attention to policies for the undeveloped sector and regions: such as the structural adjustment for rural areas in (2) and the acceleration of the development of inland economy that in (3). Further, in (6) it is expressed that the role of government in income redistribution and social security system. It is thought that the constant reference to employment measures in (8) is an attempt by the CPC to appeal its care for the weak members of society.

What is new in (4), on the other hand, is an attempt to split the management of state-owned assets between central government (managing large-sized state-owned enterprises that affect the life vein of the economy, infrastructure and important natural resources) and regional government (managing other state-owned assets). As explained in the Chapter 5 of this book, these measures will lead to the acceleration of the privatization process in regard to state-owned assets. In general, in the economic policy, we see the aim to maintain the existing line, consider social stability and promote reform as much as possible.

### **1.4.3 Response to Rising Economic Classes**

A long time before holding this National Congress, it was presumed that the CPC would approve the entry for private entrepreneurs. However, the actual conclusion of this is hard to fathom. Firstly, the Congress report recognized that "entrepreneurs and technical personnel employed by non-public scientific and technological enterprises, managerial

and technical staff employed by overseas-funded enterprises, free-lance professionals and members of other social strata are all builders of socialism with Chinese characteristics" (2. Implement the Important Thought of "Three Represents" in an All-round Way). And it opened up Party door for private entrepreneurs based on the expression such as "we should admit into the Party advanced elements of other social strata who accept the Party's line and program consciously and meet the qualifications of Party membership following a long period of test" (10. Strengthen and Improve Party Building).

It seems difficult to introduce directly the principle for private entrepreneurs to entry Party from the thought of "Three Represents". Having said that, the total number of the employees in private enterprises and individual entrepreneurs that constitute the actual problem, is 53.43 million people, a number approaching the 76.4 million people in state-owned enterprises ("China Statistical Yearbook 2002"). In the same section of the National Congress report, a reason for granting party entrance to the above classes was explained as "to increase the influence and rallying force of the Party in society at large". It is argued that unless the vitality of new economic classes is injected into the party, it will not be able to change into a "party that can hold the reins of state and lead the people, sustaining the administration over the long-term". The Communist Party was unable to abandon the ideology that is "party is forever the vanguard of the Chinese working class", but did express its intent to "keep pace with the times".

### **Conclusion: Issues Remaining for the 17th National Congress**

I would like to return to my opening question. What will be the effect of this National Congress on economic management and economic structural reform to come?

At first, I would like to make the follow-

ing points in regard to the thought of "Three Represents". Firstly, whereas the CPC defines itself as the party holding the reins, it considers the most important duty is economic development. The CPC considers that the validity of its governance is evaluated according to its record on economic growth. In addition to not being able to abandon dictatorship in the political arena, we can predict that the CPC will heighten a color of development dictatorship.

Secondly, although it is in a measured fashion the CPC has already embarked the entrance of private entrepreneurs. As a result, the party is not just the vanguard of workers and farmers, but also plays the role of jointly being the representative of the profits of the capitalist. The CPC is no longer able to avoid diverting from its ideology. The philistinism on economic policy are set to grow in importance. Some day we can see "socialist market economy" as an expedient for China to efficiently achieve economic growth as a huge developing country.

Next, in regard to change of personnel, it is need to point out the issues as follows. Firstly, generational change was larger than expected. The "third generation" (the concept dividing the generations after the success of the revolution. The "first generation" is Mao Zedong, the "second generation" in which reform and opening up was started by Deng Xiaoping, and the "third generation" of Jiang Zemin and Zhu Rongji) completely retired from the standing members of the political bureau. The only member to survive was the Secretary General Hu Jintao. The new members were all established and had achievements in the fields of economic policy and regional politics. New members also constituted more than half of the Central Committee and, of these, over half were bureaucrat of each field. This ensured the continuation of economic policies and has been appraised as creating a system to deal with difficult economic issues building up both internally and externally.

Secondly, the change of generations was carried out strictly according to a "retirement age system" (for Central Committee members up to 65). The retirement age system established in the administrative institutions applied to political system, it is expected to speed up the policy decisions and execution of the same in future.

Thirdly, it is a fact that the succession in power at the top exposed the nature of the previous state of affairs. It was inevitable that Jiang Zemin, who retired the central committee members, would be seen as building a cloister government by staying in the important post of Chairman of Central Military Committee as the "ordinary party member". It is very possible that this point strongly detracted from the plus factors mentioned above.

The effect of the present National Congress on economic management and economic system reform is generally considered affirmative. The thought of the "Three Represents" has had the effect of loosening the ideological constraints of communism. It is expected that problems will begin to emerge that will challenge the very nucleus of communism, such as how to protect the rights of private enterprise and how the private ownership system should be legislated. This thought will also play the role of bringing this question into the open.

Further, the "rejuvenation" (average age of regular political committee members dropped from 65.4 to 62.1 from the last National Congress to this one), "better educated" (all committee members are at least university graduates) and "more competent professionally" (most committee members are the first serving people in their fields) for the Standing Committee Members of Political Bureau is a plus factor when considering the complexity of the environment surrounding economic management and economic policy both the domestic and foreign sides. For example, there has been sharp growth in non-state, non-public corporations and entrance to the WTO has been granted.

Most members of Hu Jintao "fourth generation" leading group, is expected to be in office for second-stage of ten years. If we suppose that the "Jiang Zemin - Zhu Rongji - Li Peng" regime has supported the leading group in the era of 15th National Congress, it will be the "Hu Jintao - Zeng Qinghong - Wen Jiabao" regime in the era of 16th National Congress. However, Jiang Zemin exercise power from behind the scenes. It will still take a while for new troika to run smoothly.

The economic issues tackled by the Hu Jintao leading group in the first period (2002~2007), to summarize, were to maintain annual growth rate of approximately 7%, while dealing with the influence of the entrance to WTO and the reforms raised in the tenth five-year plan. The basic plan was already laid and the necessary personnel were in place. However, difficulties with the reforms had increased from before. It is expected to be after the 17th National Congress (2007) when the bare bones of a market economy with Chinese characteristics can appear after resolving these issues.

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(Chinese)

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#### Notes:

1. Please refer to "2001a" by ONISHI Yasuo for an analysis of the Chinese economy during this period.
2. Refer to "2001b" by ONISHI Yasuo and the "Special report: China's Western Development Strategy" in the "Ajiken World Trend" August 2001 edition, regarding the Western Development Strategy.
3. On this point, based on the fact that the central region and eastern regions are both mentioned, some view this as hinting that there was a political backlash in both regions and the stance towards the Western Development Strategy by Premier Zhu and the State Council was passive.

#### References:

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