

# Prospects for the New Chinese Leadership's Economic Policy

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## 1. Assessing China's Economy under the Hu Jintao Regime

Under Hu Jintao's leadership, the Chinese economy grew so rapidly that it rose from being the sixth largest in the world as of 2001 to the second largest in 2010. Along with the impressive expansion of the economy, however, worries began to rise over increasing risks of the middle-income trap and the "system transition trap." The first and foremost task that the new Xi Jinping regime should accomplish now is thus to prevent the Chinese economy from falling into either of these traps. Complicating the prospects of success for the new regime, however, is the dilemma of having to maintain the rapid growth.

## 2. Analyzing Major Economic Policy Issues at the 18th Communist Party Congress

### A. The Characteristics and Economic Ideology of the Fifth-Generation Leadership

Members of the newly elected fifth-generation leadership of the Chinese Communist Party share core common characteristics in their essential orientation to stability and their experience in local administration. These members joined the Communist Party after experiencing, in their late teens, the turmoil of the Cultural Revolution as first eye witnesses. The priority of stability is thus deeply ingrained in their mindset. They

have also impressively led the successful economic development of various regions of China. They have a deep insight into the economic issues affecting the lives of ordinary people. They are unlikely to make a firm commitment to any one doctrinaire side. They are extremely skilled at managing “the politics of the system” that the labyrinthine Chinese bureaucracy demands.

Another noticeable fact about the members of the new leadership is that, with the exception of Yu Zhengsheng who majored in engineering as a student, the remaining six have backgrounds in the humanities and social sciences. This composition breaks away with the tradition of the previous regimes that favored technocrats with specialties in sciences and engineering. Whereas the first and second generations of Chinese political elite were revolutionaries and the third and fourth generations were technocrats, the fifth generation could be called professional bureaucrats.

Under the new leadership, Li Keqiang, as the Premier, will assume the supervision over the country's economic affairs in general. Zhang Gaoli will serve as the Vice-Premier of commercial affairs to assist Li's work, while Wang Yang will oversee affairs in industries, energy, transportation, and communications; Ma Kai, finance, budget making, and trade; Liu Yandong, agriculture and water resources; and Wang Huning, diplomacy and foreign relations.

Li Keqiang obtained a doctorate in economics from Beijing University. After a brief stint as the first-rank secretary in the Communist Youth League of China, he went on to work in the local administrations of Hunan and Liaoning. After he rose to the position of Vice-Premiership in the central government, he has actively led policies on urbanization, industrialization, and the modernization of agriculture.

Zhang Gaoli's official career began with his fourteen-year service in the Ministry of Petroleum, followed by work in the provincial bureaucracies of Guangdong and Shandong. Zhang rose to prominence after he successfully managed the economic development of Tianjin with intensive investment. Ma Kai is a bureaucrat whose career has been steeped in the evolution of the Chinese economy. He served as the Vice-Director of the Office of Price Administration and oversaw macroeconomic management, energy policy, and the Grand Western Development projects from 2003 through 2008 as the chair of the National Development and Reform Commission (NDRC). Wang Yang is also a bureaucrat with substantial influence, as he has successfully reformed the economy of Guangdong amid the worldwide financial crisis while serving as the province's Communist Party Chief. He had previously served as a civil servant in Anhui and a deputy head on the NDRC.

## B. Party Charter Amendment and Economic Policy

The 18th Communist Party Congress also oversaw the amendment of the party charter, made for the nineteenth time since the foundation of the party and for the seventh time since the Reform and Opening up. Major recent examples include promoting the Deng Xiaoping theory, in the 15th Party Congress held in 1997, along with Marxist-Leninism and Maoism as the guiding ideological pillars of the party, and incorporating Jiang Zemin's Three Represents theory into the party's ideological core in the 16th Party Congress held in 2002. The recent 18th Party Congress elevated the scientific development concept, based on its general orientation to inclusive growth, to the new guiding ideology of the party.

Significantly, the 18th Party Congress also revised the concept of the five core elements

of socialism with Chinese characteristics by adding the building of an ecological civilization. It stressed that building and maintaining a more eco-friendly civilization is the indispensable step, along with economic, political, cultural, and social development, toward the progress of the Chinese people and achieving a beautiful China.

The Congress also added a fourth “-ization” to the three traditional “-ization”s that have defined the Chinese economic development, which are; informatization to industrialization, urbanization, and the modernization of agriculture. It also articulated its vision for cultural advancement and industry by adding the development of a socialist country with a strong culture and the enhancement of the efforts to consolidate the core value system of socialism to the party charter.

### C. 18th Party Congress Report and Main Economic Issues

The 18th Party Congress Report consists of 12 chapters in total. Its theme emphasizes the plan to achieve the well-off (XiaoKang) society by 2020 throughout China. More specifically, it refers to the plan to double gross domestic product and the average income per capita among the households between 2010 and 2020. This requires that China maintain an annual growth rate of at least 7%.

Another important economic issue discussed by the report is the need to accelerate changing the made to economic development. The party seeks to speed up the reform of China's economic systems and the strategic adjustment of its overall economic structure. The goal of economic system reform entails the following; encouraging the development of both public and private sectors; enhancing the finance and tax reforms; and expanding the scope of financial reforms (i.e., marketization of foreign ex-

change and interest rates, incremental promotion of the Yuan as a trade settlement currency, and the accelerated development of private financial institutions). The goal of strategic adjustment of the economic structure entails: improving the demand structure (i.e., encouraging domestic consumption); upgrading the industrial structure (by promoting the growth of new strategic industries and the service sector); fostering inter-regional cooperation and mutual development; and promoting urbanization.

## 3. Predicting the Economic Policy of the New Leadership

### A. Changing the mode of Economic Development

Changing the mode of economic development includes such tasks as promoting domestic consumption, urbanization, and upgrading of industries to restructure the overall economy in general. The specific goal is to increase domestic consumption by 15% per year on average, to reach 32 trillion Yuan of consumer goods sold in cumulative total by 2015 (from the 15.7 trillion Yuan in 2010). The Chinese government is considering an incremental urban reform that includes giving these farmers new urban registers. The new leadership's plan also includes increasing the service sector's portion of the GDP from the 43% in 2010 to 47% in 2015 and the portion of the seven new strategic industries from 3% in 2010 to 15% in 2020.

### B. Reforming the Economic Systems: Accelerating Marketization

The core issues at stake in reforms include mitigating income disparities; establishing a

more energy-efficient and eco-friendly society; and integrating the Chinese economy into the world market further through financial reforms. These issues demand tax reforms, the marketization of foreign exchange and interest rates, and the opening up of the capital market to globalize the Yuan.

The specifics of tax reforms include reducing individual income taxes, value added taxes, and sales taxes, and increasing taxes on the consumption of resources and other environment-affecting materials. Property taxes will be introduced, while the tax system will be gradually decentralized and devolve to local administrations as part of these reforms.

The new leadership will also seek to speed up the marketization of interest rates and the globalization of the Yuan, incrementally promoting free convertibility of the Yuan.

### C. Improving the public welfare

The new leadership will also focus on improving the living conditions by providing satisfactory public education, creating quality jobs, increasing household incomes, and expanding the social security net. The first and foremost task on this plan is to create 45 million jobs in urban areas over the next five years to bring the urban unemployment rate down below 5%. The plan also includes increasing the minimum wage standard by 13% annually, with the goal of bringing it up to 40% of the average income by 2015. The disposable incomes of households in both urban and rural regions are to be increased by 7% each year on average to become twice as large in 2020 as they were in 2010. 16 million new units of housing for lower income households are to be provided between 2013 and 2015.

### D. External economic policy: Further opening up

The 18th Party Congress Report also articulated its commitment to the strategy for active opening-up, stressing the improvement of trade balance, the enhancement of the efficiency of foreign capital and investments, the expansion of Chinese companies overseas, and the strengthening of free trade agreement (FTA) strategies as core goals. The 12th Five-Year plan also sums up external economic policies as; increasing active participation in the governance of the world economy and regional cooperation. Accordingly, the Chinese government will seek to expand China's influence on the international stage, reclaiming some of the power so far wielded by the International Monetary Fund, the World Bank, and other initiatives organized by developed countries. It will also increase its efforts to strengthen ties to the neighboring countries and other developing countries in East Asia.

## 4. Assessment and Implications

The new leadership's comparative emphasis on structural readjustment and balancing will slow down the growth of the Chinese economy somewhat, mitigating its growth rate. <China 2030> by the World Bank and DRC<sup>1</sup> also predicted that the annual growth rate would drop to 7% between 2016 and 2020, and even further to 5% by 2020.

The slowdown in China's economic growth and exports will directly lead to a proportionate decrease in the volume of Korea's exports to China. This is particularly so as the majority

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<sup>1</sup> Development Research Center of State Council in China.

of Korea's exports to China involve intermediate materials and parts which factories in China process to export to other countries.

The Party Congress made it clear that the cost of labor in China will continue to rise, while workers' rights are strengthened, the regulations and legal systems become increasingly transparent, and the discretionary powers of local bureaucrats are kept on the wane. The growing pressure of the rule of law means that local bureaucrats are not as free as in the past to make arbitrary policy decisions. The emphasis on environmental protection will also lead to an increasing number of related regulations, while also opening up new business opportunities.

It is also crucial that the central governments of Korea and China strengthen their economic partnership by consolidating cross-national economic frameworks such as the Korea-China FTA and the currency swap agreement. The two countries can also benefit significantly from opening up the service sector and strengthening their partnership over the development and advancement of new strategic industries.

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