

## **China's moving towards an inclusive growth and implications for East Asian Cooperation**

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### **Success of economic performance in China**

China's economic performance over the last 30 years has been impressive. It is the world's fastest-growing major economy, with growth rates averaging 10% per year. It is the world's second largest economy, the largest exporter and second largest importer of goods. On a per capita income basis, China ranked 90th by nominal GDP and 91st by GDP (PPP) in 2011, according to the IMF. The white paper, titled New Progress in Development-oriented Poverty Reduction Program for Rural China indicates that China's poverty-stricken rural population fell from 94.22 million at the end of 2000 to 26.88 million at the end of 2010. Poverty rate fell from more than 65 percent to less than 10 percent as 500 million people were lifted out of poverty<sup>①</sup>.

It is the success of China's economic policies and their implementation that has resulted in significant and steady growth. The economic reforms taking advantage of market principles began in 1978 and were carried out in two stages. The first stage, in the late 1970s and early 1980s, involved the decollectivization of agriculture, the opening up of the country to foreign investment, and permission for entrepreneurs to start up businesses. However, most industry remained state-owned. The second stage of reform, in the late 1980s and 1990s, involved the privatization and contracting out of much state-owned industry and the lifting of price controls, protectionist policies, and regulations. The Chinese government has always made poverty reduction an important goal and task of national development and worked hard to enable all the people to enjoy the fruits of economic and social development. It was in the mid-1980s that the Chinese government started the development-oriented poverty reduction program in the rural areas in an organized and planned way. The 11th Five-Year Economic Program (2006–2010) aimed at building a "harmonious society" through more balanced wealth distribution and improved education, medical care, and social security.

Meanwhile, the last three decades saw a supportive global environment that undoubtedly assisted and accommodated China's rapid growth. China expanded and deepened its economic integration with the global economy, and is dedicated to creating an open, transparent, fair, competitive and legal environment. Reform and opening-up provide the driving force for continued economic and social development in China. This policy reaped large dividends for

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<sup>①</sup>The Chinese government defines those who earn less than 1,274 RMB (about \$200) in income a year as "poor people" after the nation raised the national poverty line for rural residents from 865 RMB in 2000 to 1,274 RMB in 2010.

China, bringing investments, advanced technologies, and giving a boost to China's internal economic reforms and so on.

### **Challenges related to China's growth model transition**

Economic transition has already been a key objective in the previous plan, and some progress was achieved in specific areas. In post-crisis era, China's economy has grown in line with macro-economic management. However, there is a lack of balance, coordination and sustainability in its development, and some outstanding structural and environmental problems need to be addressed gradually.

--- Progress on the overall rebalancing of targets has been limited. For example, consumption has lagged substantially behind investment, while services remain at a relatively low level of gross domestic product (GDP). Domestic consumption as a percentage of GDP fell to 36% in 2009, compared to about 45% a decade earlier. In the global context, the heavy dependence on export markets and an excess of their savings over their investment reflects a limited absorption capacity of their domestic consumption. This in turn is a product of increasing inequalities and holding down of mass consumption. Moreover, the factors and advantages that propelled high growth in China during its rapid development phases—low-cost labor and easy technology adoption—disappeared when it reached middle- and upper-middle-income levels. The need to transform the economic growth pattern is stronger now than it was 5 years ago, and the recent global crisis has highlighted the risks of the export-led growth model and the sustainability of future growth.

--- China still faces the issues of poverty and inequality, in spite of impressive economic growth. It is true that large parts of our population are still to experience a decisive improvement in their standard of living. The percentage of the population below the poverty line is declining, but only at a modest pace. Income inequality remains one of the major challenges of inclusive growth. The Gini coefficient, a gauge of income disparity, rose from 0.317 in 1979 to 0.47 in 2010, while the internationally accepted threshold is 0.4.

Urban-rural differences in China have shown a significant increase between and within regions in recent years. The distinction between the urban and rural sectors reflects productivity differences of the activities in the two sectors. China is still facing dual challenges to ensure food security to its large and still growing population and to improve the living standards of the rural population. Furthermore, the quality gap in public services available to rural and urban households has widened, and the "opportunity gap" (access to such things as education and health services) between urban and rural areas has grown, both of which feeds into inequality in income and wealth.

---China's current pattern of development has also placed considerable strains on the environment and the availability of natural resources. The rapid growth has delivered tremendous economic and social benefits to the people of China, but the growth was realized at a significant environmental cost through what has been described by the World Bank (2010, p. 202) as a "high

growth, high pollution” economy. Growing urbanization and structural change within manufacturing have combined to make China the world’s largest energy user. Similarly, rapid growth has led to substantial natural resource depletion and serious environmental pollution. This tendency could, in time, serve as a serious constraint on growth.

### **Towards more inclusive Growth in China: the 12th Five-Year Plan**

Progress towards inclusiveness should result in lower incidence of poverty, broad-based and significant improvement in health outcomes, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihoods and in improvement in provision of basic amenities like water, electricity, roads, sanitation and housing.

At present, China has recognized that the growth model needs to be changed to accommodate new challenges. China determines to promote scientific development and move faster in growth model transformation. On 14 March 2011, China’s National People’s Congress approved a new national development guideline for the next five years (2011-15). The 12th Five-Year plan is one of the most important events in China's economic development as it emphasizes “higher quality growth” and “inclusive growth”. The most significant part of the Plan is the focus shift from the export-led sectors to increasing domestic consumer demand to allow all Chinese residents prosper in this new era. The growth component of the strategy is therefore important for two reasons: it will contribute directly by raising income levels and employment for the population in general and it will also help to finance programmes that are necessary to ensure more broad-based and inclusive growth. There are many important goals in the plan as follows, Develop China’s western regions; Protect the environment and improve energy efficiency and so on, Which cover three broad areas of reform—**economic restructuring, improved living standards, and environmental protection.**

First, China intends to accelerate the transformation to services- and consumption-driven model, namely the continue transitioning to an economy driven by domestic consumption instead of export. The plan reflects government efforts to make growth more inclusive and sustainable by setting an annual GDP growth target of 7%, and by increasing by 4 percentage points the share of the services sector over GDP. By comparison, the 11th Five-Year Plan called for annual growth of 7.5%. In setting a slightly lower GDP growth rate, China hope to make it guide people in all sectors to focus their work on accelerating the transformation of the pattern to achieve more sustainable and efficient economic development.

A larger services sector will support economic restructuring and the achievement of some social and environmental targets. Developing the services sector would thus absorb the rural–urban migration stemming from urbanization as service-sector job become more plentiful. What is more, better food security, better protection of the ecosystem and development of a modern agriculture can lay a solid material foundation for larger domestic demand.

Industrial policy is expected to lead innovation-driven growth throughout the period. The

government aims to continue China's transformation from a low-tech manufacturing economy to a high-tech & high value-added innovation-based economy. Building countrywide research networks can also link to global R&D networks; SMEs should also be seen as an important source of innovation, especially in sunrise industries; Closer collaboration and partnerships with multinationals will contribute to the creation of a dynamic and open innovation system; seeking to enlarge spending on R&D and also raise the share of basic research supported by universities and research institutes. Seven strategic industries have been selected to that effect supported by increased research and development (R&D) spending, which are targeted to increase from 1.8% of GDP in 2010 to 2.2%. The 7 strategic industries include the development of energy saving and environmental protection, next generation IT, biotech, high-end equipment, new energy, advanced materials, and new energy vehicles. The aim is to increase their GDP contributions from 2% to 8% by 2015.

Urbanization is the most durable engine driving the Chinese economy and it provides the biggest potential for China to expand domestic consumption, which is also a major part of the 12th Five-Year Plan. The country as a whole is in the middle of ongoing industrialization and urbanization. In 2011, China's urbanization rate for the first time exceeded 50 percent. In a word, continued industrialization, urbanization and agricultural modernization pushed in a balanced way are the necessary path for China's modernization. It is also a strategic move to ensure the shift of the growth model, structural adjustment and larger domestic demand.

**Second**, the fundamental goal of our efforts to accelerate the growth model transformation and structure adjustment is to ensure and improve people's livelihood. China has been implementing such projects as employment support, social housing, and full coverage of health care and large-scale poverty alleviation. For example, to address existing shortages of affordable housing, the plan envisages the construction of 36 million units of low-income housing by 2015 to cover the needs of 20% of urban households. This would greatly increase people's income, stimulate consumption and expand market demand.

Aimed at raising the income of the low-income groups, China will continue to reform the income distribution system, in part by raising the proportion of individual income in national income. The central government also increased the minimum wage nationwide by no less than 13 percent on average each year, and raised basic pensions for enterprise retirees for a seventh year.

Moreover, we will promote equal access to basic public services and encourage the people to go for employment or to create jobs. Thus, the composition of government spending will evolve to reflect China's changing development challenges. Social security expanding requires three coordinated actions: delivering more and better quality public services to underserved rural areas and migrant populations; restructuring social security systems to ensure secure social safety nets; and mobilizing all segments of society. Most notably, the next twenty years will see the great need to further increase spending on health and social protection. These essential public services not only impact directly on welfare in the short run, they also determine economic opportunities for the future. Therefore China would speed up forming a public service system and a public service-oriented government.

**Third**, China aims to keep a resource-conserving, environment-friendly society. Rising strains on the environment highlight the need to continue the push for a more balanced, eco-friendly growth model. It is our opportunity to “go green” through a mix of market incentives, regulations, public investments, industrial policy, and institutional development. The intention is to encourage new investments in a range of low-pollution, energy- and resource-efficient industries, spur investments in related upstream and downstream manufacturing and services, and build international competitive advantage in a global sunrise industry. The environmental agenda features prominently in the new plan with 7 of the 12 binding targets set in this area. Energy and carbon intensity are targeted to decline by 17% and 16% per unit of GDP, respectively. The private sector, including farming, small scale enterprises and the corporate sector, has a critical role to play in achieving the objectives.

### **Implications and Policies for further East Asian Cooperation**

At present, China is closely interdependent with East Asia economically. A China that is committed to scientific development, which features comprehensive, coordinated and sustainable economic and social development, will contribute to a sound and sustainable development in East Asia. Although China has chalked up remarkable achievements, it still faces a lot of challenges as a developing country, and needs support in meeting those challenges.

Despite the East Asian remarkable progress, there are questions as to whether the region can sustain its remarkable growth. Countries are confronted with a number of major challenges such as larger populations, growing environmental pressure, rising income (and non-income) inequality, and climate change and so on. There are external challenges also arising from the fact that the global economic environment is much less favorable than it was. These challenges call for renewed efforts within larger regional context. We are required to place greater importance on social equity and justice while pursuing economic development, give greater help to underdeveloped areas and distressed groups and ensure that people of all countries can share the fruits of development.

#### *Promoting innovation cooperation*

Even though the financial crisis in US and Europe send shockwaves throughout the world, they also brought new opportunities. Now the core question is not the speed of economic growth, but the structural adjustments and the means of achieving those goals. As a result, we must work together to support new developments using technology and innovation. The development of innovation and cooperation, particularly in science, technology, and finance is a major priority in addressing the structural problems in the East Asian economy. Innovation cooperation will become the endless driving force behind economic and trade development in the near future.

#### *Developing human resources*

East Asia also has the world's largest labor force and the largest pool of engineers and scientific researchers, enjoying a remarkable edge in human resources. So East Asia should invest more in human development to better equip its people to benefit from the opportunities of rapid

growth. Developing human capital to stay ahead of the industrial curve; harping on increasingly inclusive financial system development; using existing and new technologies (ICT, for example) for improved service delivery in education and health; and innovating for environmentally sustainable development are all features that need to coalesce at the top of public policy.

*Investing in energy efficiency and renewable energy*

Energy demand in the fast-growing economies of East Asia is increasing as the region pushes its development and poverty reduction agenda forward and its people enjoy a more affluent lifestyle. Green development can drive growth and address past environmental deficits, but its success will take active government policies— applying market and nonmarket policy instruments—together with competitive and well-functioning markets for goods and services. Investing in energy efficiency and renewable energy provides a win-win solution to developing countries that need to balance economic and environmental priorities.

*Increasing labor mobility*

Generally, the region has done relatively well on moving towards enhanced financial and trade integration, though much more could be done in the labor market. Migration in East Asia has helped fill labor shortages in host countries and remittance flows have contributed to poverty reduction and macroeconomic stability in home countries. Improved regional migration policies could enhance the gains from regional economic integration and allow those countries facing a negative demographic drag on economic growth in the next generation to obtain much-needed labor inputs. Meanwhile, the challenges for enhancing productivity may be country-specific, but are linked to improvements in combining capital, labor, technology, and other circumstances. While enhancing productivity must be linked with enhanced regional integration so that firms have the ability to trade and obtain financing, and acquire skills from abroad.