



China Analysis 92
October 2011
www.chinapolitik.de

**Making Plans for Markets:
Policy for the Long Term in China***

**As published in the *Harvard Asia Quarterly*, Vol.13, No.2, Summer 2011, 33-40.*

Sebastian Heilmann

**Professor of Comparative Government and the Political Economy of China
Trier University, Germany**

E-mail: heilmann@uni-trier.de

MAKING PLANS FOR MARKETS:

POLICIES FOR THE LONG TERM IN CHINA

SEBASTIAN HEILMANN TRIER UNIVERSITY

Political efforts at comprehensive development planning – that is, anticipatory public policy coordination for the long term and across policy sectors – have come under criticism, been in decline, or tacitly given up and scaled down in most political economies since the 1980s.¹ But we find one major case that challenges the verdict about a universal collapse of planning: China, the most dynamic large economy of the past thirty years. While dismantling many typical features of socialist industrial administration, it has reinvigorated its ambitions in long-term, cross-sectoral coordination of economic, social, technological, and environmental development from the mid-1990s through the 2000s.

The Chinese government continues to draft

long-term policy agendas that are designed to anticipate, utilize, and shape domestic and global market trends. We find multi-year programs with binding and indicative targets in virtually every sector, from space programs and infrastructural construction through human resources and education to health care, cultural life, and tourism.² To improve formulation and implementation, Chinese planners try to combine multi-year plans with a multitude of consultative and corrective mechanisms that are intended to make planning more responsive to unanticipated contextual changes, more open to operative adjustments, and more conducive to producing and using new policy instruments.

¹ For example, see Peter J. Boettke, Peter J., ed., *The Collapse of Development Planning*. New York: New York UP, 1994; Michael P. Todaro and Stephen C. Smith. *Economic Development*, 10th edition. Harlow/London: Pearson, 2009.

² For documentation of comprehensive as well as sectoral programs, see the planning section on the National Development and Reform Commission's (NDRC) website at <http://ndrc.gov.cn>. The most valuable documents and background information are only given in Chinese language.

Regarding the comprehensiveness and intended domestic and global impact of long-term policy programs, China thus constitutes the most ambitious planning polity of our times.

NEW-STYLE DEVELOPMENT PLANNING

From 1993 on, development planning has been reorganized fundamentally in terms of content, process, and methods to give room to market coordination while preserving overall state control. It has been geared to identify and support growth potential offered by markets and thereby moved further and further away from Soviet-style administrative resource management. Yet, the very essence of state development planning has been preserved in China, as a governmental effort at:

- *Strategic policy coordination.* Prioritizing and coordinating state policies from an anticipatory, long-term, cross-sectoral perspective.
- *Resource mobilization.* Mobilizing and pooling limited resources to bring about structural changes identified by policy-makers as necessary to achieve sustained economic and social development.
- *Macroeconomic control.* Controlling the level and growth of principal economic variables to achieve a predetermined set of development objectives, prevent severe cyclical fluctuations and contain the effects of external shocks.

For understanding the emergence of new-style development planning in China, the initial years of introducing a “socialist market economy” are of particular importance. A radical reorientation and reorganization of the planning system was launched by a Central Committee decision in fall 1993. While planning had been seen and used as a *substitute for markets* previously, Chinese administrators were now charged with the task to “take markets as the foundation”, that is, to *plan with and for markets*, to absorb major trends in domestic and global markets into multi-year government programs.

MACRO-CONTROL AND BALANCING

Instead of abolishing plans and planning bodies altogether, planning was redefined as one of three key mechanisms of “macro-control” along with fiscal and monetary policy that were supposed to facilitate “comprehensive coordination” and

“aggregate balancing” of economic activity. Instead of fixing a huge number of quantitative targets and control figures, planners were ordered to focus on macro-, strategic, and policy issues and refrain from giving orders to departments and regions. “*Ex ante* coordination” through plans was supposed to be made compatible with the “*ex post* coordination” through markets.³

In preparing the 10th Five-Year Plan for the 2001-2005 period, the Zhu Rongji government went further and defined new strategic norms for plan formulation by stating that the government is “no longer the main force in resource allocation” and that growth should be driven by competitive allocation through markets. The focus of planning was therefore supposed to shift from setting narrow, quantitative growth targets to guiding and coordinating structural and qualitative changes in economic and social development, such as promoting the services sector, domestic demand, environmental sustainability, rural urbanization, and Western development. Moreover, the 10th Five-Year Plan identified science and technology as well as human resources as decisive for China’s catch-up with the most advanced societies.⁴ Leading planners emphasized that it was the shift from a socialist shortage economy to a surplus economy achieved during the mid-1990s that necessitated a basic reorientation of the planning system from material production and physical growth to a much broader human development-centered approach.⁵

In contrast to Premier Zhu Rongji, who held a skeptical attitude toward the effectiveness of comprehensive planning and toward the reorganized planning bodies in particular, the Wen Jiabao government that was established in 2003 emphasized the need for national, long-term coordination of economic, social, technological, and environmental development and put a renewed trust in the planners. During a Central Committee plenum in November

³ See CCP Central Committee. “Decision of the CCP Central Committee on Some Issues Concerning the Establishment of a Socialist Market Economic Structure” (official translation). *Xinhua News Agency News Bulletin* 16388, November 17, 1993; Gui Shiyong et al., eds., *Zhongguo jihua tizhi gaige* [The Reform of China’s Planning System] (Beijing: Chinese Finance and Economics Press, 1994): 72-76.

⁴ Zhang Zhuoyuan and Lu Yao. “Di shige Wunian Jihua de zhiding yu shishi [Formulation and Implementation of the 10th Five-Year Plan].” In *Zhongguo shige Wunian Jihua yanjiu baogao* [Research Report on Ten Chinese Five-Year Plans], edited by Liu Guoguang (Beijing: People’s Press, 2006): 661-703.

⁵ Yang Weimin, ed., *Fazhan guihua de lilun he shijian* [The Theory and Practice of Development Planning]. Beijing: Qinghua UP, 2010.

2003, Wen introduced the programmatic slogan of the “Five Comprehensive Coordinations” (五个统筹) that has served to outline the Communist Party’s priorities of coordinated and controlled, “harmonious” and “scientific” development since then: the mitigation of urban-rural, inter-regional, social-economic, human-environmental and domestic-international imbalances and contradictions that are not supposed to be left to a free-wheeling evolutionary process.

As a result of the internal (unpublicized) mid-term evaluation of the 10th Five-Year Plan in 2003, important innovations were included in drafting the 11th Five-Year Plan that actually constituted a major revision to the functions and means of planning that had been laid down in the mid-1990s. A terminological change from “plan” (计划) to “program” (规划) was undertaken to mark the difference with previous administrative resource allocation through plans. Most importantly, along with anticipatory, “indicative targets” (预测性指标), a new category of “binding targets” (约束性指标) was introduced. As opposed to socialistic imperative plan targets and quotas of earlier times, these binding targets were now directed specifically at government bodies and seen as “government promises” especially in the area of environmental and land use policies, not aimed at steering company decisions. Leading planners increasingly came to the consensus that plans would have no credibility and effectiveness if limited to the post-1993 doctrine of serving as “strategic, macro and policy” guidelines only.

Though the reintroduction of binding targets

met with strong criticism among market-oriented policy-makers and advisors at first, planners succeeded in convincing top-level leaders and even market-oriented economists in the Five-Year Plan advisory committee that binding targets for *regulating government behavior* (not for controlling company decisions) especially in environmental protection and land use policies were justified and timely.

As it turned out, the nationwide reorientation of administrative behavior achieved in the fields of emission reduction and energy conservation was judged to be the most important success of the 11th Five-Year Plan that was implemented in the 2006-2010 period, and even for many central officials apparently somewhat surprising. For the ensuing 12th Five-Year Plan, planners therefore suggested to expand the use of binding targets to make further progress in those fields in which administrative behavior had to be tied down to nationwide standards so as to arrest irresponsible and unsustainable use of environmental and land resources.

EAST ASIAN REFERENCE MODELS

Chinese planning reforms that have taken place since the turn to a “socialist market economy” reveal certain commonalities with the Japanese post-war experience regarding the ideational framework and the priorities of government intervention. Governments in both post-war Japan and post-Cold War China were obsessed with industrial catch-up and international competitiveness while trying

Table 1: Redirecting Plan Functions in China since the 1980s

Planning Practice 1980s-1992	Post-1993 Innovations	Post-2000 Innovations
Paramount planning goals		
Growth of physical output (“material planning”); “comprehensive balancing”	“Macro-control”; transition to intensive growth; rise of productivity and living standards; “sustainable growth”	Sectoral restructuring; urban-rural and regional redistribution; environmental protection; technological innovation; human resources (“people-based” planning)
Planning methods		
Gradual reduction of mandatory targets and administrative resource allocation; “guidance” planning in incipient consumer markets; partial price liberalization	Shift to market-oriented “macro”-planning; drastic reduction of quantitative targets and administrative resource allocation; price liberalization	New binding targets for government bodies in environmental and land management; functional spatial planning through “development priority zones”
Sectoral industrial policies		
Sectoral resource management by Soviet-type branch ministries	Dismantling of most branch ministries; initial industrial policy programs	Proliferation of multi-year sectoral programs and industrial policies

© Sebastian Heilmann

to defend national “economic security” and guard against foreign domination.

As Okimoto argues for Japan, at the heart of East Asian industrial planning lie deep-seated doubts that unfettered markets, by themselves, can yield an “industrial structure that meets national needs, not simply one that emerges passively out of the global division of labor.”⁶ Thus markets had to be structured and stabilized through anticipatory government intervention. And social overhead investment had to be accumulated and channeled into priority industrial sectors to achieve strategic goals and needs that were politically determined but rested on widely shared aspirations within society to promote the nation’s wealth and status.

Regarding the basic goals of national planning, China’s post-1993 approach largely conforms to reprioritization trends observed across East Asia in earlier periods,⁷ including the progressive emphasis on infrastructure, social (including redistributive aspects, income disparities, rural-urban migration), technological, environmental, human resources, and spatial (urban-rural, metropolitan) developments that have gained weight in Chinese national planning since the mid-1990s and assume center stage as of today.

But the Chinese state-heavy planning process never relied on the subtle public-private sector interaction that facilitated “social bargaining through the bureaucratic system” in Japan.⁸ In certain respects, post-1993 Chinese planning appears to come close to earlier South Korean planning practice from the 1960s through the 1980s that employed a mix of policy tools ranging from binding to incentive-based and differentiating between different needs in different sectors. In South Korea, as in China today, the process of regular planning consultations has served economic administrators to learn about new trends across businesses and bureaucracies, to adjust their administrative interventions to the changing economic environment, and to move beyond narrow “agency point of views” and ministerial jurisdictions.⁹

Besides such commonalities, we find rather

fundamental differences between the Chinese and other East Asian planning experiences. The legacy of a cadre-based command economy that has shaped the evolution of China’s efforts at strategic policy

Whereas Japanese plans emerged from largely non-hierarchical and informal network-based communication and exchange across the public and private sector, top-down priority-setting has been much more prevalent in the Chinese planning process until today.

coordination entails basic differences with market-oriented planning as undertaken in Japan or South Korea until the early 1990s. The Japanese economy was never a centrally planned one. Japanese multi-year indicative plans were not even binding for local governments, but rather served as general forecasts and orientation guidelines for economic and bureaucratic actors. Whereas Japanese plans emerged from largely non-hierarchical and informal network-based communication and exchange across the public and private sector,¹⁰ top-down priority-setting has been much more prevalent in the Chinese planning process until today. Moreover, the predominance of large state-controlled corporations renders China’s private sector almost non-influential in national planning when compared with the Japanese or South Korean practice of earlier decades.

Nevertheless, Japanese and South Korean planning approaches have served as reference models for Chinese planners and industrial policy-makers from the 1980s to the present. Over the last decade, Chinese planners have become more selective and specialized in their solicitation of advice. Today’s planning officials turn, for instance, to Japanese models and specialists for metropolitan infrastructure planning, to German expertise for functional spatial and environmental planning, to Singapore and South Korea for human resources and technology planning and even to small Scandinavian countries for social welfare planning. Strikingly, the Indian planning experience with its highly sophisticated models and techniques¹¹ was repeatedly examined by Chinese planners but never judged to be a practicable reference for planning reform in China.

¹⁰ Okimoto, *Between MITI and the Market*, 24, 228.

¹¹ See Byres, Terence J., ed., *The State, Development Planning and Liberalisation in India* (Delhi: Oxford UP, 1998): 1-35.

⁶ Daniel I. Okimoto, *Between MITI and the Market: Japanese Industrial Policy for High Technology* (Stanford: Stanford UP, 1989): 9-12, 36-37.

⁷ Somsak Tambunlertchai and S.P. Gupta, “Introduction,” in *Development Planning in Asia*, edited by Tambunlertchai and Gupta (Kuala Lumpur: Asian and Pacific Development Centre, 1993): 1-14.

⁸ Yoichi Nakamura, “Economic Planning in Japan,” in *Development Planning in Asia*, edited by Tambunlertchai and Gupta (Kuala Lumpur: Asian and Pacific Development Centre, 1993): 16-59.

⁹ Il Sakong, “Indicative Planning in Korea,” *Journal of Comparative Economics* 14 (1990): 677-680.

CORRECTIVE MECHANISMS

After 1993, Chinese planners became much more modest in terms of formal modeling, accepting the vagaries of market dynamics and policy implementation and stressing the need to combine comprehensive planning and national priorities with creative problem-solving and mixed governance modes on the ground. It can be argued that post-1993 new style development planning was conducive to, or certainly did not impede, China's economic take-off *because* it made use of effective corrective mechanisms.

Some of these corrective mechanisms that counter tendencies toward rigidity and centralization inherent in traditional planning governance appear familiar since they were observed already in other East Asian countries:

- The limitation of imperative planning to only a few tightly controlled sectors;
- The expansion and refinement of contractual and indicative (incentive-based, non-hierarchical) planning;
- The opening of diverse channels for absorbing foreign expertise and adapting it to local conditions;
- The exposure to world markets with resulting competitive and innovative pressures;

----- Other core governance mechanisms that have shaped China's recent planning experience and facilitated continuous or *ad hoc* adjustments appear unusual and distinctive even in the East Asian context;¹²

- The encouragement of extensive and sustained decentralized policy experimentation across a large spectrum of sectors;
- Reliance on transitional, hybrid and informal institutions ("institutional layering") over an extended period;
- Under-institutionalized, oscillating patterns of centralized and decentralized coordination;

- Imposition of top-level policy initiatives through the Communist Party hierarchy ("red letterhead" documents, Party meetings, campaign-style mobilization) in the case of emergency measures;
- Reorganization of human resources management through the Party-controlled cadre system.

In China, policy coordination is thus pursued through processes and instruments that are oftentimes starkly different from most present-day advanced or emerging political economies. China has not invented these processes and instruments anew, but has rather recombined features of imperative, contractual, indicative and experimentalist coordination that can be traced to China's own political-administrative legacies or to earlier Japanese or South Korean experiences during the take-off phases of these economies.

Strikingly, the Indian planning experience with its highly sophisticated models and techniques was repeatedly examined by Chinese planners but never judged to be a practicable reference for planning reform in China.

The governance of planning that has taken shape in China since 1993 teaches us to refrain from easy classifications: The policy processes and instruments utilized by the Chinese government do go beyond the established analytical features and standard explanatory models of the Socialist command economy, the East Asian developmental state or the Anglo-American

regulatory state. It is a major example of recombined governance based on adaptive policy processes that are being reshaped in response to a constantly changing economic, technological, and social environment.

ACHIEVEMENTS AND LIMITATIONS

Sustained government intervention and planning in post-1993 China has so far succeeded in boosting investment- and export-driven growth, infrastructural buildup and industrial diversification while keeping basic macroeconomic indicators and balances (inflation, fiscal deficits, foreign debt, capital account, current account, foreign exchange) under centralized political control. Planned and *ad hoc* interventions have since 1993 guarded over a remarkable degree of macroeconomic resilience despite major external shocks that hit the Chinese political economy in 1997 and 2008. Development planning and administrative interference were employed as a means to benefit from, and at the same

¹² See Sebastian Heilmann and Elizabeth J. Perry, eds., *Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*. Cambridge, Mass.: Harvard University Press, 2011.

time control, domestic and transnational market dynamics and market participants.

A major strength of post-1993 planning may be seen in its elasticity demonstrated through three re-adjustment periods (1993-1995, 1997-1999, 2008-2010) when severe macroeconomic challenges necessitated swift, temporary retreat from original plan objectives and emergency government interventions. Overall, the incorporation of experimental programs into macro-plans, newly introduced mid-course plan evaluations and regular top-level policy review have allowed Chinese planners to escape the rigidity traps that debased most planning exercises in socialist and non-socialist planning systems during the 20th century.

In the face of acute threats, Chinese planners “sacrifice the long-term goals for the short-term ones,” as one senior planning official conceded. But as soon as recovery from crisis is in sight, they still try to return to the original long-term goals. During the 2008-2009 global economic downturn, Chinese planning officials were at the forefront of mobilizing all available resources to fight economic crisis. But they were equally determined to return to the “correct” long-term goals defined in the Five-Year Plans as soon as the economy would stabilize again. Overall, the Chinese approach to planning is remarkably adaptive. It is oriented toward well-defined goals, but it does give ample room to tinker with the means and the sequence of steps for achieving the goals.¹³

Despite a comparatively successful macroeconomic record, there are obvious and hard limits to the planning ambition with regard to fundamental economic restructuring and the transition toward an efficiency-, innovation- and domestic consumption-driven mode of development. In contrast to the record of extensive growth, government planning and intervention has so far proven largely ineffective in promoting and guiding macro-structural shifts, i.e. the “transformation of the growth and development mode” that has been defined as a core mission with changing formulas in all Five-Year Plans from the mid-1990s on. With regard to industrial restructuring and innovation, the record of plan fulfillment is mixed, ranging from unexpected

achievements in turning around large SOEs and highly uneven progress in technological innovation to costly and oftentimes failing policies in the promotion of an indigenous automobile industry and complete miscalculations about the dynamics of the real estate market.

Goals and targets stated in Chinese development plans were implemented most effectively in those policy fields in which government programs managed to align political cadre career incentives (and therefore administrative action) with domestic and transnational market opportunities.

Generally, it has been difficult for Chinese national planners to impose guidance and restrictions on local governments and companies if plan prescriptions ran counter to market incentives and business interests. Goals and targets stated in Chinese development plans were implemented most effectively in those policy fields in which government programs managed to align political cadre career incentives (and therefore administrative action) with domestic and transnational market opportunities. The paramount drive of the post-1993

planning system reforms, i.e. shifting from planning *against* markets (or planning as a substitute for markets) to planning *with and for* markets, has been strongly advanced in many bureaucracies, industries, and regions of China.

The Chinese mode of planning exposes many well-known drawbacks of sustained government intervention in the economy. State planning creates and sustains groups with a vested interest in planning. Consequently, some of the most controversial debates among policy-makers and advisors in China revolve around how the government should curtail monopolistic and oligopolistic structures in strategic economic sectors through targeted, multi-year programs of competition policy.

One key issue remains completely unresolved: limiting administrative interference and defining thresholds for “government exit” in those sectors that could be left to market competition or societal self-organization. Presently, many sectors of China’s economy and society may still be in a stage where private initiative needs to be embedded “in a framework of public action that encourages restructuring, diversification, and technological dynamism beyond what market forces on their own would generate”.¹⁴ But as other East Asian late

¹³ Harro von Senger. *Moulüe – Supraplanung* [Supra-Planning in China]. Munich: Hanser, 2008.

¹⁴ Dani Rodrik. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton UP, 2007): 99.

industrializers have experienced, economic and social diversification cannot be guided top-down in an increasingly complex and sophisticated economy and society in which further development will have to be based on decentralized information flows and bottom-up innovation. The politically tricky thing for all East Asian governments has been to organize this

In the eyes of Chinese planners, policy-making in democratic systems is limited to compensatory ad-hoc interventions and leaves control over the direction of human societies' development to "blind" market forces

unavoidable retreat in a phased and timely manner.

Based on the recent record of reinforced administrative interference in China, the prospects for achieving gradual government retreat from economic and social life do not look promising.

PLANNING AS ADMINISTRATIVE INTEGRATION

Beyond its significant yet uneven role in economic coordination, development planning serves crucial integrating functions in China's polity that are regularly overlooked. The formulation of comprehensive multi-year plans provides top policy-makers with an extraordinary opportunity to demonstrate their authority by setting the agenda, defining new priorities, and coining new slogans for communication and coordination across all levels of China's administration.

Lower-level administrators may prefer to ignore novel policy priorities and high-minded goals defined by the central leadership. But they are still compelled to pick up national policy conceptions and regularly spend considerable time with formulating and justifying local development policies that must not contradict nationally defined priorities.

Central and provincial officials interviewed for this study stressed the importance of having an authoritative, encompassing plan document that serves as a central point of reference for all sorts of specialized policy documents produced thereafter. High-level policy advisors emphasized the importance of a regular exercise in rethinking, justifying, and adjusting development strategies as well as the inclusion of the scientific and scholarly community in the plan consultations as a major strength of

the planning process. Across administrative levels and functional units, planning thus amounts to a strategic exercise in administrative communication that includes a formal demonstration of compliance with the national leadership and helps to identify and possibly bridge disagreements about policy priorities and approaches among decision-makers and bureaucracies.

Development planning thus fulfills important and possibly indispensable functions for integrating China's vast, fragmented administrative apparatus and legitimating the Communist Party's central leadership. Therefore, the functions of post-1993 development programs for political-administrative integration may be seen as even more important than the allocative, redistributive, and regulatory functions of many planning exercises.

CRITIQUE OF SHORT-CYCLE POLICY-MAKING

Fundamentally, Chinese planning aims at the imposition of political priorities upon economic markets. Along with the recent global financial and economic crisis, this planning ambition has been bolstered by a growing distrust and critique of policy-making in Western democracies. In the eyes of Chinese planners, policy-making in democratic systems is limited to compensatory *ad hoc* interventions and leaves control over the direction of human societies' development to "blind" market forces, even though comprehensive and long-term strategies are obviously required to cope with fundamental challenges such as capital market dysfunctions, environmental degradation or demographic change. As a brief formula, the Chinese national planning ambition aims at *long-wave policy-making* as opposed to *short-cycle policy-making* that characterizes the policy process with its frequent and *ad hoc* reprioritizations in most political economies.

Despite their continued planning ambition, Chinese policy-makers have come to accept that many unknowns and uncertainties that cannot be anticipated through planning characterize the future of economies and societies. One top-level planner interviewed for this study stated that even the most careful planning cannot prevent disastrous events, economic downturns, and external shocks from happening, since far too many variables are outside of the planners' control. But in his view, foresighted planning can provide a strong foundation to deal with the impact of such events in a swift and coordinated manner and thereby will greatly help to contain the damage done to society. Consequently, shielding China from the cyclical crises of financial markets has recently been strengthened as a central mission of macroeconomic control.

China's unorthodox approach to development planning – pursuing broad long-term policy priorities while constantly searching for and experimenting with novel policy instruments – may become an advantage in the years to come, if this variant of adaptive governance is sustained under the current challenging conditions and continues to put policy-makers on a constant search for broadly acceptable development goals and novel policy instruments.

Against the background of the post-2008 secular trend toward expanding government interference into markets, the Chinese experience with planning and its corrective mechanisms holds valuable lessons for efforts at policy coordination that go beyond *ad hoc* fixes and emergency measures. At the very least, the Chinese post-1993 planning experience challenges the conventional wisdom about an inherent infeasibility or ineluctable collapse of development planning under conditions of a globalized economy.

Yet, as a product of a very special economic context and trajectory, the Chinese approach to planning is clearly not replicable as a “model” elsewhere.

Chinese policy-makers try to keep key variables that they identify to be crucial to China's current and future development trajectory – Communist Party rule and executive continuity; political control over economic sectors and corporations identified as strategic; macro-economic variables such as growth, inflation, fiscal deficits, credit volume, current and capital accounts, currency exchange rates – under tight control and as steady as possible. Controlling such a range of political and economic factors through authoritarian or bureaucratic-legal means is impossible for almost any other existing political system and will be difficult to sustain in China itself. As soon as the Chinese government loses control over one or more of the above-mentioned key variables, the ambitions of new-style development planning may still come to an abrupt end.