

# Policy on Economic Development Transformation Recognized by the 19<sup>th</sup> National Congress of the Chinese Communist Party - From Chinese Scholars' Perspectives

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**Abstract:** *China's economic miracle since its reform and opening-up has always been the subject of interest to the world academia. It is a widely held view that the flexibility and ingenuity of the Chinese government in policy-making for economic development is one of the fundamental causes for this success. The article reviews studies of Chinese scholars on the critical contents of the policy for transforming the mode of economic development as stated in the materials of the 19th Congress of the Communist Party of China (CPC) in 2017.*

**Keywords:** Transformation Policy, Mode of Economic Development, Structural Reform, Development of Economic Entities, High-quality Economy, 19th Congress, Communist Party of China

## Introduction

After surpassing Japan to become the second largest economy in the world, China has always maintained its position in the international arena since 2010 up to now. China's contribution to the global economic growth as well as its economic competitiveness have increased in all sectors (Mieu Luc, 2016: 20). Despite the achievements, the excessive focus on the economic growth and disregard for balancing economic growth and other aspects have brought about a series of problems to China, such as unbalanced development, high dependence on

investments and exports, environmental pollution, and so forth (Di Hien Dung, 2017).

At the 19th Congress in 2017, the CPC announced strong policy adjustments to overcome the country's existing economic and social problems. As pointed out in the report of the Congress, the focus of the policy for transforming the mode of economic growth in China in the coming time would be on shifting the economic development objective from rapid development to quality development, taking supply-side structural reform as the principal prong, and developing economic

entities. The 2017 China Central Economic Work Conference also emphasized the construction of a set of high-quality development indicators and a statistical system for monitoring and evaluating the quality of the apparatus (Vien Hieu Giang, 2018: 1).

Reviewing relevant Chinese publications showed a great attention has been paid to the policy of transforming the economic development mode. They mostly focus on the three pillars of this policy, namely supply-side structural reform, development of economic entities and high-quality economic development.

### **1. Supply-side structural reform**

As identified in the report at the CPC's 19th Congress, supply-side structural reform is the principal prong of the policy for transforming economic development mode in China. Studies have provided reasons for this viewpoint of the Chinese government and outlined necessary tasks for its implementation.

Firstly, to explain why the Chinese PPC and government adopted this viewpoint, a number of scholars such as Tran Hoa and Trieu Hieu Loi based on extensive literature review have suggested that: After more than 40 years of reform and opening up, China's production level of China has improved significantly. The country has been the world leader in terms of the production capacity for many major agricultural and industrial products. However, Chinese products can only satisfy the low-end markets (Trieu Hieu Loi, 2018: 8). The country still has to rely on imports of important and high-quality raw materials and components as well as high-quality agricultural products.

Trade and services sectors cannot meet the domestic demand, causing a great structural imbalance in the economy (Tran Hoa, 2017). These problems explained why China had to pursue a supply-side structural reform, regarding the improvement of supply-side system as the principal policy prong to upgrade its economic quality (Trieu Hieu Loi, 2018: 8).

Studies also propose the tasks for the implementation of supply-side structural reform in China. Most of them suggest the core tasks, with different levels of priority, should be "to reduce overproduction and inventory, cut loans and costs, strengthen areas of weakness, optimize capital allocation, increase high-quality supply, and balance supply and demand".

While Trieu Hieu Loi (2018: 8) considers all of the aforementioned tasks equally significant, the authors in the *Periodicals of Chief Accountant* (2018: 29) believes lowering costs and strengthening areas of weakness as the most important tasks for the supply-side structural reform. They posit that the supply-side structural reform in China has entered the period of revolution 2.0, for which the central government no longer treats the five tasks of "three removals, one reduction, one supplement" equally. Instead, lowering costs and strengthening areas of weakness are considered to be the tasks of foremost importance. Particularly, lowering costs (including financial costs and tax collection costs) should be targeted for reducing economic and systematic costs. Meanwhile, strengthening areas of weakness refers to transforming the manufacturing sector towards higher creativity and quality in order to make China

not only a major producer but a great power in manufacturing in future.

Another viewpoint supported by other scholars, including Nguy Kiet (2018: 19), holds that lowering costs is critical to China's supply-side structural reform. Nguy Kiet suggests two ways through which costs can be lowered: reducing labor costs and national systemic costs. However, it is not feasible to reduce labor costs because the labor shortage in China is even driving up wages. What can be done in the coming time is to decrease the national systemic costs: 1/ Reducing tax collection costs. Business tax should be replaced by value-added tax and income tax to avoid taxing businesses before they can make profits; 2/ Reducing insurance costs. The current premium in China is twice as high as the world's average. Reducing insurance costs would help increase business incomes; 3/ Reducing rents, as current rents in China are extremely high; 4/ Reducing financial costs, to attract foreign investment in the financial services; 5/ Reducing business process costs; to correct the current situation characterized by high costs and confusion.

## **2. Development of economic entities**

Relevant studies that contribute to the conceptual clarification of economic entity have proposed tasks for the development of China's economic entities in the coming time.

Regarding economic entities, Thanh Tu Nguy (2012) defines them as "the foundation for economic development... covering a series of economic activities, from production and trade to consumption". The Research Center for the Theoretical System of Socialism

with Chinese Characteristics, Central Party School of the CPC, suggests that economic entities are present "in agriculture, manufacturing and services" (Vuong Le Vien, 2018: 4). Chu Tieu Xuyen notes that the concept of economic entity should be specified further, for "not only covering production but other activities in the services sector" (Vuong Le Vien, 2018: 4). Similarly, the Luu Hi Tuong, Ly Te Mai (2018: 15) state that economic entities are production industries, ranging from agriculture, industry and services. Despite variations of the definition, the common viewpoint is to see economic entities as production industries in agriculture, industry, and services.

Having established the definition of economic entity, the studies recommend tasks for promoting the development of economic entities. In general, a majority of the studies claim the core task is economic structural adjustment (Luu Hi Tuong, Ly Te Mai, 2018: 15; Nguy Kiet, 2018). Nonetheless, studies differ on the foci of the structural adjustment.

Some author like Vu Ban and Truong Duong Duong suggest the country's economic focus should be on transforming the manufacturing-reliant economy into a services-oriented economy. According to Vu Ban (2018: 32), over the past 40 years, China's manufacturing sector has been opened up and participated comprehensively in the global competition. Since 2010 when the added value of China's industrial sector surpassed that of the United States, the country has continued its top position in the world's manufacturing

sector. What the country should focus on now is a comprehensive expansion of the service sector along with the improvement of efficiency and competitiveness and integration into the global competition. Similarly, Truong Duong Duong (2019: 9) asserts that reforms in the service sector would bring about benefits and definitely be the game changer for the Chinese economy. As incomes increase, people tend to pay more attention to the quality and their experience of services when their income increases. In the context of higher demands of the consumers for “quality” and “quantity”, China should focus on the services sector.

Another viewpoint represented by Ninh Nhat (2017:12) holds that the pillars of the Chinese economy should be both sectors of services and high-end manufacturing. The shares of these two sectors would increase in the future while those of the traditional manufacturing and agriculture sectors would decrease.

Viewing from a broader perspective, Nguy Kiet (2018) argues the critical point for the development of economic entities is to reform critical industries that contribute greatly to economic growth. The economic pillars are no longer the sectors of traditional manufacturing and real estate. There is currently an overproduction in the traditional manufacturing sector. Meanwhile, real estate bubble might jeopardize the prospects of this sector despite its current significant contribution to economic growth. Based on his surveys, Nguy Kiet recommend three production industries to be China’s economic pillars: 1/ Strategic and emerging production

industries, including energy, new materials, energy saving, environmental protection; critical works; mobile networks and information technology; high-end equipment manufacturing; 2/ Services sector, including consumption services, commercial services, production services, spiritual services; 3/ Modern manufacturing, including the production industries for aircraft, high-speed railway equipment, nuclear energy transmission equipment, and modern military equipment. He posits that restructuring these key economic industries would help form the backbone of the Chinese economy.

### **3. High-quality economic development**

The Report of the CPC’s 19th Congress pointed out that the Chinese economy was being redirected from a high-speed development to a high-quality development. Literature also discuss the concept of high-quality development as well as propose implementation tasks.

*a) Comprehension of high-quality development.* Vu Ban (2018: 31) presents a well-recognized definition of high-quality development, which is ensuring the stability in the economic quality and efficacy. China used to focus more on a quantity-oriented growth model, but in the future the production industries should be more quality-oriented. In the current context, while China’s pace of growth is slowing down, it is necessary to improve the quality level in order to ensure a steady economic development and efficacy.

*b) Implementation tasks to achieve high-quality economic development.* A wide range of tasks has been suggested in different studies for the implementation

of high-quality economic development policy. Among those, three key tasks have been proposed, including changing the modes of investment allocation, creating technological advances, and optimizing the workforce (Truong Truong Xuan, 2018: 5). Regarding changing the modes of investment allocation, it is understood as the rational adjustments of investment allocation by geographical regions, by types of enterprises, and by production industries. The empirical analysis of Au Duong Thang Nga and Thai My Linh (2018: 45-46) which was based on the financial investments in several provinces and cities in China had come to a conclusion that financial sufficiency should be critical for upgrading and transforming production. The authors also suggest three orientations for changing the mode of investment allocation: *First*, it is necessary to actively improve the environment for financial investment, establishment of investment funds for underdeveloped regions, namely the Central, the West and the Northeast; *Second*, the government should set out directions for the establishment of investment funds for production towards ensuring the stable and regular flows of financial support to small- and medium-sized enterprises (SMEs) in services; *Third*, it is necessary to prudently select a number of hi-tech industries with strong potentials of growth and profit-making to invest in.

The suggestions offered by Au Duong Thang Nga and Thai My Linh are in line with the directions that a majority of Chinese scholars are following. For example, regarding improving the

environment for financial investment in underdeveloped regions, especially in the Central West, Ho Doan Yen, Do Hy Trac, Nhiem Duc Hoa (2018: 21) note that the region has an underdeveloped economy, harsh natural conditions and its people tend to migrate to the populous East with better economic conditions. The migration has caused the brain drain, making it even more difficult for the region to develop. In the case, the government's reallocation of investment is needed. Trieu Lo and Trieu Tac Quyen (2018: 23), in their empirical study of changes in economic gaps among several cities and provinces in China, claim that reallocation of investment is important for shortening the economic gaps between the East and the West, developing the major economic routes in order to link the long and narrow economic region with Shanghai, Hefei, Xi'an, and Urumqi to make up the backbone of the economy and to bring into full play the role of the Silk Road and the Maritime Silk Road in promoting regional economic linkages for an active realization of the "One Belt, One Road" strategy.

Concerning the allocation of financial support for SMEs, Luu Minh Thuy and Trinh Tue Tra also share the views of the group led by Au Duong Thang Nga. The study of Luu Minh Thuy, Co Thieu Khanh, Du Chung Tu (2018: 88-89) shows that SMEs account for 99.7% of China's total number of enterprises, playing an irreplaceable role in the Chinese economy. However, compared to large enterprises, SMEs demonstrate many limitations, such as insufficiency of capital investment and talents, outdated management

methods, and weak creativeness, that put many enterprises on the brink of collapse. SMEs also lack collateral assets to access loans from banks and credit institutions. Therefore, it is necessary for the government and credit institutions to work together to provide stable and regular financial support, through establishment of credit institutions and guarantee funds and bonds issuance in order to help SMEs improve their creativeness and production practices.

Trinh Tue Tran (2019: 115) also indicates a series of policies for providing financial support for SMEs have been promulgated recently by the Chinese government. However, the lack of proper implementation measures has hindered enterprises from benefiting from the policies. Thus, it is necessary for the government to put in place mechanisms to increase the accessibility of SMEs to such policy initiatives.

Regarding the adjustment of capital allocation for potential hi-tech industries, Au Duong Thang Ngan and Thai My Linh (2018: 45-46) argue that China's production transformation and upgrade in the next period should aim for restriction of investments in polluting industries while increasing investments in clean energy, hi-tech industries and service industries which are capable of optimizing the structure of the economy. Their argument with the views of many other scholars. The study by the Development Research Center of the State Council (2018) noted that industries with overproduction problems received large amount of investments, resulting in the underinvestment in other industries. It is necessary in the coming time to balance

the investment flows among production industries and towards higher investment into services.

As for technological advances, it is a widely held view that promoting the development of science and technology is a key factor in transforming the mode of economic development in China.

Hong Ngan Hung (2018: 90) points out a crucial factor for the development of science and technology in China: While directing the production towards strategic and hi-tech industries, the science and technology community should work together with the industries to enhance cooperation in scientific research and to promote the application of scientific and technological advances in production.

Other studies also stress the crucial role of domestic science and technology development in reducing the dependence on imported components and technologies. Vu Ban (2018: 32) contributes that China's objective in the next period is to shift from attracting foreign technologies to creating its own technologies and step-by-step improving the domestic science and technology capabilities, changing the disadvantaged position in terms of technological dependence. Similarly, Trieu Ao and Vu Xuan Huu (2018: 105) also claim that in order to lessen the dependence on imported technologies, it is necessary for China to promote creativity and domestic technological research in key industries, especially energy saving, waste reduction technologies; to pay attention to sending staff abroad for education and training; to promote international cooperation in research; and to enhance

the transition from technological imitation to creation.

However, studies argue also that science and technology development is not only about investing more but whether the prevailing ideology, mechanisms and enterprises are capable of stimulating the creativity, for which human resource is more critical than facilities. It thus requires investments in talent development and an advanced education system to ensure the harmonization between production and science and technology (Duong Kiet, 2019: 63-64).

The final point is the optimization of the workforce. The contributions of science and technology development and the quality of human resources to economic growth are increasingly important in the era of digital technologies. Tran Kim Hieu (2019: 30) notes that the competitiveness of the economy is becoming less reliant on natural resources but more on science and technology and intellectual labor. It is talents with creative and management capabilities that are important for the competitiveness of the economy. In order to implement policies that promote development, the government and enterprises need a contingent of technical talents and high-level managers with analytical skills, theoretical knowledge and the ability to apply them into practice.

Similarly, Ly Dao Quy (2018: 54-55) suggests the development of the world's economy in the future is the competition among labor forces while the development of science and technology is another competition between human beings and machine. Improving the quality of human

resources is one of the crucial tasks that China should be prepared for in order to minimize the risks to economic growth. If the quality of human resources is not enhanced in the coming time, as the author admits, there would be little prospect of economic successes in China.

### **Conclusion**

China's policy of transforming the mode of economic development following the 19<sup>th</sup> Congress of the CPC is formulated on scientific viewpoints in association with the concepts of a creative, harmonious, green, open and synergetic development. The long-term objective of this policy is to build a developed, modern, scientific, progressive, democratic and moderately prosperous society. Key conclusions can be drawn as follows:

*Firstly*, the core of the policy of transforming the economic development mode in China is about shifting the economic trajectory from high-speed growth to high-quality growth, ensuring the stability of economic quality and efficiency, implementing the three fundamental tasks, including supply-side structural reform, development of economic entities, and high-quality economic development.

*Secondly*, despite various suggestions on the crucial tasks for the implementation of the supply-side reform, most of the studies state that removing overproduction, reducing excess inventory and loans, lowering costs, strengthening areas of weakness, improving the allocation of capital and increasing high-quality supply are major tasks for this policy prong.

*Thirdly*, studies agree that environmental protection and services industries have

emerged as key economic sectors for China in the coming time towards the development of economic entities, hi-tech industries, and energy saving.

Fourthly, high-quality economic development requires the adjustments in investment allocation and development of science and technology and a contingent of knowledgeable and capable talents. Science and technology development and the quality of human resources should be the two decisive factors in the long term in promoting China's high-quality economic development □

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