Growing Into A Different Plan: The Changing Role of Planning In The People's Republic Of China

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Abstract
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The Changing Role of Planning In The People’s Republic Of China

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Since the inception of its central planning system in 1953, the People’s Republic of China has struggled to grow into a uniquely Chinese, yet effective economic planning system. The intention of this paper is to examine the changing role of planning in China. Changes are demonstrated in the Five Year Plans of the pre-reform (1953-1978) and reform eras (1978-1995). The argument asserts that the role of planning existed poorly during pre-reform centralization, but was strengthened during decentralized marketization in the reform era. This irony demonstrates that China has not completely grown out of the need for the plan, but instead has grown into the need for a different type of plan.
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1. Introduction

The People’s Republic of China (PRC) has utilized the concept of a Five Year Plan (FYP) in order to work towards the goals of its centrally planned system. Since 1953 the PRC has created Five Year Plans using various types of planning philosophies and implementation strategies. Throughout this period, the PRC has undergone several significant reforms that have ushered in economic changes and new ideological perspectives on the economy and planning.¹ Prior to the reform period (1953-1978), centralization characterized the PRC. During the reform era (1978-1995), the PRC became more decentralized. Given this apparent change, two major questions arise that must be posed for examination: What happened to the role of economic planning during the pre-reform and reform eras? Can the succession of Five Year Plans during these eras help demonstrate the nature of the role of planning?

Some scholars argue that planning was the focus during the pre-reform era but became weak or less significant in the era of reform.² Others argue that the pre-reform era was not well planned or followed, and the reform era was well planned, but not followed.³ Despite these arguments, most scholars make market reform or general economic development the focal point of their research rather than specifically examining

¹ The period referred to here encompasses the years from 1953 to 1995. Examples of the economic and ideological changes and influential historical events during this period are mentioned in the chronology included at the end of this paper.
the role of planning demonstrated by Five Year Plans.⁴ Herein lies a gap in the research which lends significance added to a focused study on the changing role of the plan in the PRC. Since no scholarly work devotes itself solely to this specific topic, it is possible to see this period of history from a different angle by sorting through the existing literature. Much of this literature tends to discuss only how the plan relates to the market, how the plan can be reformed or how the plan is merely a small piece of the large and complex political economy.⁵

Naughton’s research popularized the concept that China has “grown out of the plan.”⁶ He argues that China did not engage in planned economic reform, but simply let the economy outgrow the old planned economy. Naughton’s view is valid because China’s economy in the reform era was no longer planned in a step-by-step fashion. Naughton acknowledges that central planning was still used, but only in limited circumstances “to resolve immediate economic problems.”⁷ Despite the validity of his argument, other scholarly work on the reform era raise questions about Naughton’s view of the role of planning.⁸ If China grew out of the plan, then was the plan completely abandoned? Is it possible for the plan to be both weakened and strengthened at the same time? Is it more accurate to view China as growing into a different plan rather than

⁶ Naughton, Growing Out of the Plan, p. 8.
⁷ Ibid., pp. 7, 110, 309.
⁸ For more details on this view see Joseph Fewsmith, China Since Tiananmen: The Politics of Transition (Cambridge: Cambridge University Press, 2001).
growing out of the plan completely? Could China simultaneously experience marketization and planning?

This paper examines the PRC's struggle to grow into a uniquely Chinese, yet effective economic planning system. I will evaluate the seeds of change that eventually grew into a completely different and unique concept of planning. This will be accomplished in three parts. Section 2 will discuss the struggle to adopt a central planning system by examining the plan's weak role in the pre-reform era. Section 3 will demonstrate how China adopted a uniquely Chinese central planning system that actually improved planning and led China down a newly planned path during the reform era. An analysis of both eras in Section 4 is necessary in order to explain how the adoption of market reforms has allowed China to grow into a different plan rather than out of the plan. This paper does not give a detailed account of each individual component of the eight Five Year Plans that are discussed. Section 2 will examine the 1st-5th Five Year Plans in order to exemplify the plan's changing role during the pre-reform era.

2. The Pre-Reform Era: A Centrally Planned System Without a Plan

2.1 Defining Classical Central Planning and Chinese Central Planning

Classical central planning is an integral part of any traditional socialist system. Often, a "centrally planned economy" is used synonymously with the term "socialist system." In fact, United Nations statistics use "centrally planned economy" when

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9 For a detailed account of each plan, see Riskin, China's Political Economy.
referring to a socialist system, or a country run by a Communist party. The Soviet Union’s economy demonstrated the features of classical planning. Intellectual forerunners of this type of system viewed planning as one of its greatest advantages.

Classical centralized planning encompasses all aspects of society and economic activity. National planning begins in central government bodies, namely the Party’s Central Committee, State Council and National People’s Congress. Once national economic goals and priorities are established, they are communicated to other agencies of the State Council and are implemented through economic plans. These agencies then formulate plans of varying duration including a short-term Annual Plan and a long-term Ten Year Plan. A medium-range plan often manifests itself in the form of a Five Year Plan. Annual plans comprise the real operational tools for running the economy while Five Year Plans are statements of economic policy intent. Thus, Five Year Plans serve as roadmaps to guide leaders along a planned path towards pre-set goals.

The plan’s aim is to reconcile prior processes in the economy. Implementation of the plan is compulsory, and under the classical socialist system there is no distinction between politics and the economy. Although the plan is primarily a political document, political events do not always coincide with the cycles of the plan. Frequently the target objectives of a Five Year Plan can be made obsolete by political changes. This will be exemplified later in the examination of the 2nd through 4th Five Year Plans that coincided with unforeseen political events, specifically the Great Leap Forward and Cultural Revolution.

11 Ibid., p. 11.
12 Ibid., p. 110.
13 Ibid., p. 111.
14 Ibid., pp. 114, 125.
The People’s Republic of China (PRC) initially modeled its planning apparatus after the highly centralized classical Soviet system. Soviet methods seemed to directly address China’s national needs. The establishment of a powerful, centralized authority was necessary and attractive after decades of internal chaos and victimization by foreign powers. Economic planning in the PRC was established in 1953, as the 1st Five Year Plan shows. Throughout the early 1950s, China adopted the classical Soviet system of economic planning, where the plan takes over all activities and functions of economic activity carried on by individuals, families and enterprises.

However, Chinese planners quickly became aware of the Soviet system’s limitations and questioned the relevance of using this model to meet China’s unique needs. Mao Zedong addressed this concern in his “Ten great relationships” speech of 1956. On economic administration he said, “We must not follow the example of the Soviet Union in concentrating everything in the hands of central authorities, shackling the local authorities and denying them the right to independent action.” Despite the apparent directness of this statement, Mao still used caution and called for “greater consultation with the localities, the enlargement of their powers ‘to some extent’ within the framework of unified central leadership.” Unfortunately Mao’s idea of “dual rule” power-sharing did not include a clear plan on how it would be implemented.

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15 Riskin, China’s Political Economy, p. 59.
20 Ibid.
The manifestation of the 1st Five Year Plan showed planners that Soviet-style planning was more statist than socialist.\textsuperscript{21} The plan’s achievements could not counter the growing disenchantment with the Soviet model.\textsuperscript{22} Leaders increasingly believed that new methods were needed to overcome China’s economic hardships. During the 2nd-5th Five Year Plans (1958-1980) two major decentralization and recentralization movements occurred as Chinese leaders struggled to find the balance between classical and Chinese central planning. Eventually Chinese central planning evolved into its own type of planning.

2.2 Poor Planning During Centralization

a. The 1st – 5th Five Year Plans

Chinese centralized planning dominated the pre-reform era. If the pre-reform era was predominately centralized, then it can be implied that planning was also centralized and well organized. Thus it can be assumed that plans reflected the newly adopted ideals of Chinese central planning. Ironically, this period was not well planned and the plans that were developed did not have an impact on events. The disrupted, poor plans of this period reflected the political instability and turmoil that characterized the era. The pre-reform era had only one example of a classically designed Five Year Plan, the 1st Five Year Plan.\textsuperscript{23}

\textsuperscript{21} Lippit, The Economic Development of China, p. 203.
\textsuperscript{23} See Yabuki, China’s New Political Economy.
The 1st Five Year Plan (1953-1957) represents the only plan during the pre-reform era that was designed and implemented following the classical ideals of central planning established in 1953. The Soviet model served as the basis for this plan, and Soviet planners even aided Chinese planners during their first attempt at a Five Year Plan. Despite Soviet guidance and influence, the 1st Chinese Five Year Plan was not a direct copy of a Soviet plan. During this plan period, collectivization of agriculture commenced and the socialist transformation of private industrial and commercial enterprises advanced.24 Still, the centralized nature of this period is demonstrated by the fact the nearly three times as many Central Committee members served in Beijing as in the provinces.25

The 1st Five Year Plan’s success laid the foundation for China’s industrialization.26 Of the three most general tasks that this plan addressed, only one concerned economic construction, while the other two had to do with “relations of production.”27 At this most basic level, the plan’s main themes did not include agricultural production. Despite the existence of four subsequent Five Year Plans during the pre-reform era, only the 1st Five Year Plan was carried out for more than one year. This irony can be explained, in part, by the political and economic difficulties that arose out of this 1st plan. Three particular problems arose: slow growth of agricultural production, unemployment, and the highly centralized form of planning and administration that became increasingly ineffective as the economy grew in size and

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24 Ibid., p. 27.
26 Riskin, China’s Political Economy, p. 110.
27 Ibid., p. 55.
complexity.\textsuperscript{28} This realization led China’s leaders to look differently at the distribution of authority between center and localities during the 2\textsuperscript{nd} Five Year Plan. This reassessment fit with Mao’s ideological mass mobilization strategy based on administrative decentralization known as the Great Leap Forward.

The Great Leap Forward (GLF 1958-1962) rejected the model of central administration and represented Mao’s response to the complex set of problems that were the legacy of the 1\textsuperscript{st} Five Year Plan. Mao’s own utopian vision for an improved society and economy rejected the established planning system, thus changing and interrupting the 2\textsuperscript{nd} Five Year Plan.\textsuperscript{29} Unlike the 1\textsuperscript{st} Five Year Plan that focused on industry at the expense of agriculture, the GLF backed the concept of “walking on two legs,” or developing both industry and agriculture at the same time by scattering urban centers throughout the countryside.\textsuperscript{30} Catching up with British steel production by 1973 became Mao’s main goal.

To achieve this goal, ideological correctness and knowledge of society became more valued than an advanced degree. Ideally, the Great Leap’s blend of mental and manual labor would create a “new man,” a complete Communist who could work, fight and read, thereby becoming a “jack of all trades but master of only one thought.”\textsuperscript{31} This new man would grow from within the People’s Communes. Located in the countryside, these communes were designed to be basic social units for the nation, organizations of agricultural and industrial production and hotbeds of revolutionary Communist thought and behavior.

\textsuperscript{28} Ibid., p. 111.
\textsuperscript{29} Ibid., p. 114.
\textsuperscript{30} Ibid., p. 114.
\textsuperscript{31} June Grasso, Jay Corrin, and Michael Kort, Modernization and Revolution in China (New York: M.E. Sharpe, 1997), p. 183.
Initially the GLF appeared to be successful, but this was partially due to embellished reporting of production outputs. By 1960 and 1961 the Great Leap Forward quickly regressed back. Economic crises, natural disasters and famine forced Mao to turn again to central planning. Beside the tens of millions who died from starvation during this period, one of the most unfortunate legacies was the Great Leap’s impact on the planning system. Cyril Lin explained that “the Great Leap in particular negated efforts to improve the planning system. …[During the pre-reform era] the cycle of centralization-decentralization would be repeated again and again: centralization imposed order and greater balance but resulted in a rigid, lifeless economy; decentralization stimulated economic activities, but resulted in chaos and disproportions.” This cycle continued into the next period of the pre-reform era.

The Period of Readjustment (1963-1965) was implemented in response to the food and production crisis caused by the GLF. During this period, planners abandoned the 3rd Five Year Plan scheduled to begin in 1963. Thus the Chinese economy readjusted on its own without a plan. Deng Xiaoping exemplified this do-what-is-necessary philosophy in his recitation of a peasant saying that forever became linked to his name: “It doesn’t matter if a cat is black or white, so long as it catches the mouse it’s a good cat.” The new slogan for recovery during this period became “readjustment, consolidation, filling out, and raising standards.” Zhou Enlai outlined a vision for

31 Ibid., p. 185.
32 Riskin, China’s Political Economy, p. 144.
34 Yabuki, China’s New Political Economy, p. 28.
36 Riskin, China’s Political Economy, p. 149.
China's long term growth in his "Four Modernizations" speech (1964). These objectives included modernization of agriculture, industry, defense, and science and technology.\textsuperscript{37}

At the same time, the government moved to reassert strong central control over the economy, and centralization became even greater than before, especially regarding financial planning.\textsuperscript{38} For example, Mao believed that the Gulf of Tonkin incident in 1964 threatened China's national security. In response, Mao abandoned the original strategy of the period and instead created an informal State Planning Commission that would oversee the strategy of investing major resources for building a "third line" of industries in remote Southwest China.\textsuperscript{39} Mao also used this period to reassert himself in the system and work toward establishing a position of dominance. In the countryside, peasants' motivation to work was revived by lowering distribution levels for the harvest, and construction on industrial projects halted in order to concentrate on production.

The recentralization efforts and liberalization of economic policies of the Period of Readjustment fostered Mao's decision to launch the Great Proletarian Cultural Revolution in 1966 and abandon the objectives of Zhou's "Four Modernizations." Thus, the delayed 3\textsuperscript{rd} Five Year Plan (1966-1970) was not well organized or followed. Instead, the Cultural Revolution aimed to create a new system relying on political campaigns and mass movements rather than bureaucracy and economic reforms. This would be accomplished through a drastic revamping of Chinese culture. Such a total change was needed so that "working class values replaced traditional bourgeois customs because [Mao believed that] cultural consciousness reflected the economic values of the

\textsuperscript{38} Riskin, \textit{China's Political Economy}, p. 158.
prevailing class.”40 Mao also vilified party leaders, such as Deng Xiaoping and Liu Shaoqi, whom he saw as “revisionists” and “bosses walking the capitalist road.”41 Both Deng and Liu were purged from the political system during this period.

The Planning Commission did not make Annual Plans for 1967 and 1968, and planning at the central government level essentially stopped. The cessation of planning led to economic turmoil that caused a decrease in the annual economic growth rate.42 In 1970 another administrative decentralization effort began. Government ministries such as the State Planning Commission, Economic and Price Commission, Statistical Bureau, and Labor and Material Ministries merged to form a new State Planning Committee (SPC) which retained only a fraction of the pre-Cultural Revolution staff. This process of decentralization also continued into the next planning period.

The Cultural Revolution’s ideal of “pure socialism” involving class struggle and production was evident in the 4th Five Year Plan (1971-1975).43 The growth goal for steel production set by this plan required the mobilization of local initiatives. Thus the planning system changed to rely more on local governments and provinces. For instance, most large-scale State Owned Enterprises (SOE) were delegated to provincial governments. As with the decentralization effort of the late 1950s, the decentralization effort of the early 1970s created chaos and required recentralization efforts. Negative effects on economic development continued because of a political power struggle.

40 Grasso, et al., Modernization and Revolution in China, p. 211.
41 Yabuki, China’s New Political Economy, p. 28.
42 Ibid.
43 Ibid., p. 3.
between “revisionists,” such as Zhou Enlai, and the “Gang of Four” who fought to seize power by reigniting the dying flame of the Cultural Revolution.

The Cultural Revolution officially ended upon the death of Mao and arrest of the Gang of Four in 1976. Therefore, the 5th Five Year Plan (1976-1980) represents a major transitional period in Chinese economic history. A period of readjustment was necessary after Mao’s death and before the rise of a new era of leadership. This turning point came about at the 3rd Plenum of the 11th Party Congress Central Committee in 1978 when Deng Xiaoping seized leadership of “Party Central.” Since then the economic focus has shifted from Mao’s populist attack on central planning to the relation between planning and other beneficial economic reforms.

b. An Ineffective Planning System

On the eve of economic reform, it appeared that the Chinese economic system was not performing well due to its relative decentralization. The PRC’s planning system differed from the classical Soviet system by being less centralized and bureaucratic, but a degree of continuity did exist between the centralized system of planning of the early 1950s and subsequent years of the pre-reform era, excluding the Cultural Revolution. Mao criticized centralization during the pre-reform era, but offered no real feasible

44 The “Gang of Four” was comprised of Jiang Qing (Mao’s wife), Wang Hongwen, Zhang Chunqiao and Yao Wenyuan.
45 Ibid., p. 28.
46 Ibid. “Party Central” [dang zhongyang] is the term used in Chinese materials to convey the meaning of the top leadership branch of the Chinese Communist Party including elements controlling civilian government and the People’s Liberation Army.
47 Naughton, Growing Out of the Plan, p. 46.
alternative. During this period the center continued to allocate and redistribute resources nationally despite Mao’s continuous assaults on the ideology of central planning and the implementation specialists who made it impossible for the center to plan effectively.\(^\text{49}\) \(^\text{50}\)

Mao swayed back and forth between centralization and decentralization, but would always acquiesce to the restoration of central planning, especially after the disorganization and chaos produced by mass campaigns such as the Great Leap Forward and Cultural Revolution. China during this era was caught on the path between two extremes, one being rigid centralism and the other chaotic administrative decentralization.\(^\text{51}\) The tendency to attempt decentralization did not cause China’s poor economic performance during the pre-reform era, but incomplete and poorly implemented planning did.\(^\text{52}\)

Herein lies the great irony of the pre-reform era. This period required centralization in order to establish the vital systems of the young People’s Republic of China. A period where it would be expected to find clear examples of centralized economic Five Year Plans reveals only one such example: the 1\(^{st}\) Five Year Plan. Instead, the Five Year Plans of this era demonstrate poor planning during a period of overall centralization. The ineffective planning system showed that a plan on paper does not easily translate into a plan in reality. Poor planning was partly due to the countless political upheavals and disruptive historical events that often made Five Year Plans in this era obsolete.

\(^{49}\) Riskin, *China’s Political Economy*, p. 6.
\(^{50}\) Ibid., p. 7.
\(^{51}\) Ibid.
\(^{52}\) Naughton, *Growing Out of the Plan*, p. 46.
The planning system during the Cultural Revolution was "close to paralysis." By 1977 and 1978 planners struggled with an ineffective system. The economy was not under their control and it did not produce the products they wanted. The systems needed overhauling, so leaders sought to remake the economy into a system that functioned successfully. Therefore, they rebuilt and redesigned the planned economy. During this period of transitional power, Deng had to establish his own goals for rebuilding through reform by overcoming the obstacle of Maoism's pervasive influence. In 1977 Deng attacked those followers of the "Two whatevers":

Whatever Chairman Mao’s policies are, we protect them. Whatever Chairman Mao’s instructions are, we follow them loyally from start to finish.

Deng's efforts to break away from this mentality helped introduce critical thinking and a re-examination of Mao and the economy since 1953.

Scholars have agreed that the reform era began in 1978 when Deng Xiaoping seized leadership at the 3rd Plenum of the 11th Party Congress Central Committee. Surely the events of 1978 mark the beginning of a major transition in Chinese history, but these changes were not put into motion until the 6th Five Year Plan. The 5th Five Year Plan did not simply end after the power exchange of 1978. Rather than allowing a significant political event to change or impede the plan as was a hallmark of the earlier pre-reform era, the 5th Five Year Plan continued as planned until 1980. The 6th Five Year Plan then commenced in 1981. This shows a transition toward improved planning during the reform era.

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53 Ibid., p. 48.
54 Ibid., pp. 54-55.
3. The Reform Era: A Planned Market System

3.1 Central Planning with Chinese Characteristics

Classical concepts of central planning further changed in order to accommodate China’s unique needs and philosophies throughout the reform era. The 2\textsuperscript{nd} Amendment to the Constitution of the People’s Republic of China (1993) adds to the Preamble the important notion of “building socialism with Chinese characteristics.”\textsuperscript{57} The change from Soviet-style central planning to planning with Chinese characteristics illustrates the old Chinese saying that “things turn out differently in different surroundings.”\textsuperscript{58} This distinct interpretation of Chinese-style planning characterized the era.

The unique nature of central planning with Chinese characteristics is again exemplified in the Constitution as Article 15 reads:

The State practices economic planning on the basis of socialist public ownership. It ensures the proportionate and coordinated growth of the national economy through overall balancing by economic planning and the supplementary role of regulation by the market. Disturbance of the orderly functioning of the social economy or disruption of the State economic plan by any organization or individual is prohibited.\textsuperscript{59}

The 2\textsuperscript{nd} Amendment changed the last line of Article 15 to read:

The State has put into practice a socialist market economy. The State strengthens formulating economic laws, improving macro adjustment and control and forbids according to law any units or individuals from interfering with the social economic order.\textsuperscript{60}

\textsuperscript{56} See Grasso, et al., Modernization and Revolution in China; Howe, et al. China’s Economic Reform; Naughton, Growing Out of the Plan; Riskin, China’s Political Economy; and MacFarquhar, ed. The Politics of China.

\textsuperscript{57} See Constitution of the PRC http://english.peopledaily.com.cn/constitution/constitution.html

\textsuperscript{58} Solinger, China’s Transition From Socialism, p. 143.

\textsuperscript{59} Emphasis added. See http://english.peopledaily.com.cn/constitution/constitution.html

\textsuperscript{60} Emphasis added. Ibid.
The wording of this Article and Amendment demonstrates the necessity of a strong central government in order for certain economic changes to take place. It also shows that China upheld many classical concepts, such as economic planning, but developed its own way to achieve these ideals and goals, as evident in the concept of a "socialist market economy." This more open view again echoed Deng's notion that a good cat catches mice regardless if it is black or white.

By the time Deng and other reform-minded leaders took control at the end of 1978, major changes were needed. Deng referred to the previous twenty years, the time since the GLF, as "wasted." Attempts to simply revamp the old system did not work, so leaders looked for a new avenue. The government needed to jump-start the economy and therefore it needed to become a key player in this process. This new need for change took leaders down a newly planned path. Rather than exclusively turning towards decentralization efforts that usually correspond with reform movements, active government measures were also implemented. In 1980, veteran planner Bo Yibo advocated key policies for the future based on mistakes of the past. Bo supported realistic plans that would balance the degree of centralization and decentralization, suggesting that the 14th Five Year Plan went to one extreme while the GLF and Cultural Revolution had reached the other. None of Bo’s suggestions called for the complete shift from planning to radical market oriented reform, but they did call for changes that would improve the existing system.

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62 Naughton, Growing Out of the Plan, p. 94.
63 Howe, et al., China's Economic Reform, p. 17.
3.2 Improved Planning During Decentralization

a. The 6th – 8th Five Year Plans

Theoretically, reform should abandon the system identified as causing the problems that need to be changed. The PRC targeted central planning as one major cause of problems in the pre-reform era. Ironically, central leaders during the reform era actually restored the central planning system and increased institutionalization by strengthening the role of the State. This is evident in the well planned 6th-8th Five Year Plans (1981-1993).

The 6th Five Year Plan (1981-1985) encompassed the first half of Deng’s reform and liberalization movement. The success of this plan rested on Deng’s decision to increase peasant motivation. In the countryside, peasant production increased by expanding the system that allowed individual households to take responsibility for their own production. Thus, as Yabuki points out, “through reform the Chinese economy began to revitalize itself.” With this said, it is vital to point out that the economy did not repair itself by chance, but with the aid of a plan. The State Council’s approval of “Temporary Decisions on Improving the Planning System” drafted by the State Planning Commission in 1984 reflected economic optimism. First, the system of state planning directed “planned allocation” for portions of important materials, such as coal, petroleum, steel, lumber and electrical products. Second, goods outside the state plan would be

65 Yabuki, China’s New Political Economy, p. 28.
66 Ibid., p. 29.
67 Ibid., p. 32.
subject to regulation through market mechanisms, and enterprises were free to produce and trade these goods.

The 7th Five Year Plan represents the second half of Deng’s reform and liberalization movement (1986-1990). Deng declared that reform was China’s “second revolution.” Some argued that in order to work toward real reform “there must be sufficient authoritative power to remove the obstacles formed by forces such as the vested interests in the old system. … [This] requires a strong centralization of power in the political sphere…” The reform decisions made in 1984 set the economy on a high-growth, high burn-out track. Annual inflation rates of over 20 percent demonstrated the problems of this rapid growth by 1988. In response, the government decided to temporarily halt reform in order to implement economic adjustment measures. This put the stability and effectiveness of the plan to the test.

The events of Tiananmen Square (1989) again tested the 7th Five Year Plan period. After the Tiananmen incident, Party Central announced their desire to maintain the policy of reform and liberalization, but adherence to this policy did not remain. A change occurred by late 1989 and early 1990 when a major effort began to restore significant State planning in order to resolve problems regarding production and the economy. To accomplish this, the establishment of a Production Commission under the State Planning Commission (SPC) strengthened the central government’s control over the

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68 Howe, et al., China’s Economic Reform, p. 44.
70 Grasso, et al., Modernization and Revolution in China, p. 266.
71 Riskin, China’s Political Economy, p. 29.
72 For more, see Baum’s “The Road to Tiananmen” in The Politics of China pp. 340-371.
73 Yabuki, China’s New Political Economy, p. 44.
economy. The SPC, would coordinate and oversee the functions of planning and implementation through a “double-guarantee” system in addition to the responsibility of drafting the plan. This new system guaranteed the supply of raw materials and funds to important State Owed Enterprises and, on the other hand, guaranteed enterprises’ delivery of profits, taxes and output to the State.

Finally, the recentralization efforts of the late 7th Five Year Plan ushered in the 8th Five Year Plan (1991-1995). The 8th Plenum of the 13th Party Congress helped publicly acknowledge and end many of the contradictory policies from the previous plan. Leaders learned an important lesson from the Soviet Union’s collapse in 1991: allow economic reforms in order to maintain political stability and safeguard the Party. In 1992, Deng launched a whirlwind tour of Southern China in order to gain mass support for his economic reforms. He believed that the Communist Party would survive only if it could both gather support and achieve economic development through reform and liberalization. In this same year, Deng’s “New Cat” theory reestablished his ends-justify-the-means philosophy. He emphasized the importance of judging a policy not by its overall ideology, but whether its methods allowed for developing beneficial productive forces, strengthening national power and raising people’s living standard. He accentuated this belief by pointing out that planning and markets were simply economic “methods” possessed by both socialist and capitalist systems.

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76 Yabuki, China’s New Political Economy, p. 45.
77 Shirk, The Political Logic of Economic Reform in China.
79 Ibid.
Thus, the 8th Five Year Plan adopted elements of economic reform. The Fourteenth Party Congress (1992) approved the “socialist market economic system” as a catalyst for China’s future prosperity. Zou Jiahua, Vice-Premier and head of the SPC, made it clear that “the integration of central planning and market regulation is a basic principle [of economic policy-making, but] the two do not have equal status. Central planning is of primary importance. Market regulation is supplementary.” Leaders decreased the extent of micro-managing the economy while maintaining a role in macro-management. The image of working with “two hands” to integrate this system explains how Chinese leaders would simultaneously liberalize economic policies with political authoritarianism. An open hand represents economic reform while a closed hand shows a readiness to suppress any political dissent and social unrest that results from the changing economic structure.

Overall, the results of reform accounted for a strong rate of growth, an increased average living standard and an opening up of the economy. By 1995 China had become the world’s largest producer of items such as steel, coal, televisions, cement, cloth, and several agricultural products. These accomplishments cannot solely credit governmental decentralization, but must also give credit to the plan. Thus, decentralization actually strengthened planning.

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83 Miller, “Holding the Deng Line”; and see Article 15 of the Constitution and the 2nd Amendment.
b. The Paradox of Decentralization

The paradox of decentralization during the reform era rests in the requirement of breaking traditional dependency upon the center, while at the same time necessitating a more efficient and planned central government to guide the reform process. Since the commencement of the 6th Five Year Plan, China has continued to convert its institutional structure from highly centralized to decentralized. This has been achieved through the delegation of resources, responsibilities and rights to lower levels of government, revenue sharing at local levels, and power transfers to social institutions in the private sector. The accomplishments of reform must also be linked with an improved planning system.

Significant periods of centralization occurred in the reform era even though decentralization rhetoric and practices dominated the era. This period coincided with a more stable political era, thus the 6th-8th Five Year Plans were more stable, focused and generally planned better than the plans of the previous era. The occurrence of disruptive political events, such as Tiananmen, were not as devastating to the Five Year Plans of this era as in the pre-reform era. Therefore, during a time when it would be expected to find a decrease in planning or in the quality of planning, the opposite held true. Ironically, central planning improved during this period of decentralization due to the plan’s changing role.

85 Ibid.
4. The Changing Role of Planning

4.1 Comparing the Pre-Reform and Reform Eras

Examining the role of planning from the pre-reform to the reform era clearly shows that China has grown into a different concept of the plan. Similarly, attempts in both eras to create a uniquely Chinese planning system were met with a variety of successes. On the other hand, the irony of planning in these eras arises from the difference between poor planning during centralization and improved planning during a period of decentralized market-oriented reforms. These differences are exemplified by the turmoil and disorganization in the early years of planning, and the improvements that occurred once leaders had more experience planning with Chinese characteristics.

China’s experience after reinterpreting the classical model proves that strict adherence to this model does not necessarily need to occur in order to have effective central planning. The classical model of central planning is one where virtually all enterprises are either state-owned or treated as such, and where the central government not only sets priorities, but carries them out administratively by distributing materials and finances to enterprises while ordering output from them. In this classical model the government must be highly centralized. China encountered shifts between centralized planning and decentralized planning, but planning remained the consistent factor throughout. Thus, a strict adherence to the classic model has given way to a uniquely Chinese interpretation of planning.

89 Riskin, China’s Political Economy, p. 9.
The designers of China’s economy reformed the classical planning system in order to bring about changes in the country’s understanding of and approach toward economic planning. Since the outset of the reform era, China’s economic planners have enlarged the scope of their economic views. They have come to the realization that a centrally planned economy is not equal to socialism, and economic planning is not contradictory with the market economy.

China has successfully blended the concepts of plan and market because Chinese planners adopted a different interpretation of planning in order to meet the changing needs of a different time. Planners learned valuable lessons from the demise of fellow Communist States in Eastern Europe and the USSR. Rather than working towards change from within their existing systems, planners in these countries tried to rapidly create entirely new systems. Reforms in China were not designed to represent a “flight into a total capitalistic departure from the plan.” Rather, events such as the death of Mao and participation in the world market have made it possible and necessary to find measures that “limit but do not replace the plan.”

The limitation of the plan is evident in a report by the Joint Economic Committee to the United States Congress. This report determined that while leaders in the 1990s endorsed the primacy of central planning for the economy, they did not want to return to Maoist-style ideological strictures. Therefore, leaders approved of decision-making based on objective criteria, such as cost-benefit analysis, supply and demand, and industrial and agricultural responsibility.

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87 See http://fpeng.peopledaily.com.cn/200001/17/egn20000117X103.html
88 Shirk, The Political Logic of Economic Reform in China.
89 See Kornai, The Socialist System; and MacFarquhar, ed., The Politics of China.
90 Solinger, China’s Transition From Socialism, p. 23.
Despite examples of leaders becoming less rigid and strict about the plan's production outcomes and quotas, it is inaccurate to believe that central leadership did not ultimately have the final say. Article 11 and the inclusion of an additional paragraph under the 1st Amendment illustrate this assertion:

The individual economy of urban and rural working people, operated within the limits prescribed by law, is a complement to the socialist public economy. The state protects lawful rights and interests of the individual economy. The state guides, helps and supervises the individual economy by exercising administrative control.93

The State permits the private sector of the economy to exist and develop within the limits prescribed by law. The private sector of the economy is a complement to the socialist public economy. The State protects the legal rights and interests of the private sector of the economy, and exercises guidance, supervision and control over the private sector of the economy.94

The Constitution makes it clear that government control was an important part of China's growth into a different type of planned economy.

The primacy of the central government and the continued role of the plan are also evident in market reforms. Planning was not abandoned in favor of the market, but the market was used as a more effective tool than administrative orders to pursue objectives.95 The 13th Party Congress in 1987 demonstrated the changing role of planning by advocating the role of indicative planning while de-emphasizing the role of mandatory planning.96 At this same Party Congress, Deng endorsed the key policy slogan: "Let the government regulate the market; let the market guide the enterprises."97 This slogan shows the government's unwillingness to abandon its role in the economy.

91 Ibid.
92 Joint Economics Committee, p. 110.
94 Emphasis added. Ibid.
95 Lippit, The Economic Development of China, p. 213.
96 Howe, et al., China's Economic Reform, p. 45.
97 Ibid.
Thus, the government would continue to exert indirect control over enterprises by controlling the market.

The government’s control of the “socialist market economy” is echoed in Weil’s claim that the government imposed markets on the Chinese people. Therefore the use of State power and Communist Party control transformed the economy rather than “free markets.” Kornai points out that it cannot be assumed “that a deregulated economic process is unaffected by the center or free from the influence of bureaucratic coordination.” These assertions show that leaders adopted a unique form of the market into their Chinese-style central planning system. In the spirit of Deng’s “New Cat” theory, Chinese scholars Hu and Wang argue that “reform does not necessarily mean weakening state capacity, and a market economy does not necessarily connote the elimination of state intervention; modernization certainly does not need a weak central government.”

Hu and Wang drew upon the concept that strong governments are an important factor in stabilizing society and ushering in rapid economic growth. These scholars addressed the issue of regional inequalities and argued that this problem could not be “left to the market, since the market alone might well increase rather than reduce income disparities.” Thus, government participation is vital when implementing new components into the economic planning system. By the end of the reform era, China grew into a different plan that blended plan with marketization while simultaneously

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98 See http://english.peopledaily.com.cn/constitution/constitution.html
99 Weil, Red Cat, White Cat, p. 13.
100 Ibid., p. 480.
101 Fewsmit, China Since Tiananmen, p. 136.
102 Ibid., p. 137.
decreasing the role of planning and increasing its effectiveness in order to fit the needs of China.

4.2 Growing Into A Different Plan versus Growing Out of the Plan

Naughton first used the phrase “growing out of the plan” in 1984 after Beijing planners described their intent to keep the size of the central government materials allocation plan fixed in absolute terms. Given that the economy was expected to grow rapidly, Naughton interpreted this intention to imply that the plan would become less and less important until the economy eventually grew out of the need for one. In 1995 he published Growing Out of the Plan: Chinese Economic Reform 1978-1993. Naughton’s work argues that “the market had matured sufficiently [by 1993] to create its own stability, and the plan was no longer needed.”

The claim that China was “growing out of the plan” is not wrong, rather it is incomplete. The plan’s role did become less essential as the market’s role increased, but the plan still played a significant role in the economy. Leaders decreased the plan’s role in micro-management of the economy, but not necessarily macro-management. The reform era actually changed and strengthened the plan as evident in the 6th-8th Five Year Plans. Naughton’s argument is complemented by this modified view.

My research supplements Naughton by showing that China has not grown out of the plan, but has instead grown into a different type of plan. This changing role of planning in the PRC is demonstrated by the succession of Five Year Plans from the pre-

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103 Naughton, Growing Out of the Plan, p. 9.
104 Ibid., p. 307.
reform to the reform era. Changes in the structure and nature of planning reveal a completely different concept of the plan that emerged in the reform era.

Naughton argues that once the key features of the centrally planned system are weakened or eliminated, “the system has a tendency to evolve into a different type of system.”\textsuperscript{105} Thus Naughton believes that the planning system could be outgrown and replaced within the brief fourteen years of the reform era. Kornai, on the other hand, notes that a change in system is an historical process that requires a long time to transition out of and replace with a new system.\textsuperscript{106} It is possible that in the future China could completely abandon planning. For now, it would be more accurate to say, “China is growing into a different plan in order to eventually grow out of the plan” or China is “outgrowing the existing plan” rather than “growing out of the plan.” These changes in semantics may seem minor, but they have major implications on the way we view China’s past, present and future economic structure and growth.

5. Conclusion

The role of economic planning during the pre-reform and reform eras changed. This paper serves as a complement to Naughton’s work in that it demonstrates how the People’s Republic of China has grown into a different type of plan rather than completely grown out of the need for a plan. The uniquely Chinese plan incorporates the market, but still has a function for planning even if its role is not as dominate as in the classical model.

\textsuperscript{105} Ibid., p. 309.
\textsuperscript{106} Janos Kornai, p. 377.
This changing role is demonstrated by the Five Year Plans created during the pre-reform and reform eras. Ironically, the centrally planned pre-reform era progressed without a plan while the decentralized reform era implemented a planned market system. These occurrences are not as ironic if it is accepted that the understanding and practice of planning changed during these eras. The Five Year Plans attempted during both eras demonstrate this changing role of the plan in the People’s Republic of China.

The ironies of China’s economic evolution can be understood more clearly if the planned eras are viewed as attempts to develop and implement a Chinese-style plan. Recognizing the drastic changes in economic planning that took place since the introduction of centralized planning have significant implications for our understanding of China’s economic future. As seen with the Asian economic crisis of 1997, economic dilemmas that appear to be isolated and distant have the potential to effect economies around the globe. Given that China’s population represents 1.3 billion of the world’s 6.3 billion people, an understanding of China’s economic past is vital to understanding its present situation and future direction, a direction that will no doubt influence the world.
Chronology

October 1, 1949:  Establishment of the People’s Republic of China (PRC).

1953:  Adoption of Soviet model centralized planning system and approval of 1st Five Year Plan (1953-1957).


May-June 1964:  Chinese Communist Party (CCP) discusses draft of 3rd Five Year Plan (1966-1970) while working to readjust after the Great Leap Forward.

December 1964:  Zhou Enlai endorses the “Four Modernizations.”


June 1966:  3rd Five Year Plan is revised.

August 1966:  Deng Xiaoping and Liu Shaoqi are attacked for their capitalist tendencies.

December 1967:  Planning system breaks down.


1974:  National Economic Plan delayed because of political campaigns due to the continuation of the Cultural Revolution.  Political power struggle between Zhou Enlai and the “Gang of Four.”

March-April 1975:  “Gang of Four” launches attack on Zhou Enlai and Deng Xiaoping.


December 1978: Deng Xiaoping seizes leadership at the 3rd Plenum of the 11th Party Congress Central Committee.

November 1979: Deng Xiaoping affirms that socialism can use markets.


January 1983: State Planning Commission attempts to strengthen planning process.

September 1984: Deng discusses 7th & 8th Five Year Plans (1986-90 & 1991-95)


December 1985: 6th Five Year Plan completed.


October–November 1987: Endorsement of the slogan: let the government regulate the market; let the market guide the enterprises.

April 12, 1988: 1st Amendment to the Constitution approved by the 7th NPC at its 1st session.

June 4, 1989: Tiananmen Square incident.


January–February 1992: Deng’s “Southern Tour.”

October 1992: 14th Party Congress affirms the concept of a “socialist market economy.”

March 29, 1993: 2nd Amendment to the Constitution approved by the 8th NPC at its 1st session.
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