

Chapter 2

The Third Plenary Session of the Eighteenth Central Committee of the C.P.C.—A New Milestone in China's Reform

The Third Plenary Session of the Eighteenth Central Committee of the C.P.C. was held in Beijing from November 9 to November 12, 2013. A communiqué was released on the night of the closing meeting. The *Decision of the Central Committee of the C.P.C. on Comprehensively Deepening Reform for Several Major Issues* (hereinafter referred to as the *Decision*) was adopted after deliberation, and the *Instructions on the Decision of the Central Committee of the C.P.C. on Comprehensively Deepening Reform for Several Major Issues* (hereinafter referred to as the *Instructions*) were made by Xi Jinping on behalf of the Political Bureau of the Central Committee of the C.P.C. The *Decision* received extensive attention both within China and around the world.

The Third Plenary Session of the Eighteenth Central Committee of the C.P.C. was held at a very important stage for China, when livelihoods were improving and reform was deepening. The session answered a series of major theoretical and practical questions about reform, defining its future direction. It designed the 'Five in One' overall layout for intensifying reform, and opened a new window of opportunity, with milestone significance in China's modern history.

Hereafter, the author makes a brief analysis of the *Decision*, and talks about his insights and experiences based background research and monographic study. He covers the following aspects:

1. First, the Third Plenary Session of the Eighteenth Central Committee of the C.P.C. was a milestone in China's reform. Reform and Opening lasted 35 years

This paper is Hu Angang's *Interpretation of the Spirit of the Third Plenary Session of the 18th C.P.C. Central Committee*, presented on the invitation of Guangming Online in the evening of November 12, 2013; November 16, the manuscript of a lecture at the Gansu Provincial Committee Theory Center Group Learning Conference and Gansu Provincial Leaders and Cadres: 'Enriching People and Strengthening Gansu'; organized by Tang Xiao, Yang Zhulong, and modified by the author; Report on the National Situation, Issue 21 in 2013, November 17, 2013.

in China. The Third Plenary Session became an important symbol of staged reform, reflecting the development and historical logic of Chinese reform itself. Xi Jinping said that since Reform and Opening, all topics discussed, all decisions made, all measures taken, and all signals released in previous third plenary sessions are the basis for judging the administrative policy and focus of the new leading group. They are great significant to completing the work of the next five or even 10 years.¹

2. The second aspect is a basic evaluation of China's reform over the past 35 years. The author's university think-tank conducted an objective and scientific post-assessment on improving reform of the socialist market economic system in the past decade (2003–2013) from the perspective of a third party, and also carried out an evaluation of the basic experience summarized in the *Decision* on successful Reform and Opening.
3. The third aspect is a commentary and detailed interpretation of the guiding ideology of the *Decision*, and the general goal of comprehensively deepening reform until 2020.
4. The fourth aspect includes the major deployment of the 'Five in One' system and reform, as well as their main goals, which the author calls the 'big planning, great layout and grand strategy' of the Party Central Committee for Chinese socialist modernization in the first half of the 21st century.

2.1 The Third Plenary Session—A Milestone in China's Reform (11th–18th)

Reform was a new cause in China. In 1987, Deng Xiaoping said 'what we are doing now is a cause that Marx never espoused, that our predecessors never did, and that other socialist countries have not taken up'.²

On a global scale, China's reform was something of a miracle. Firstly, contemporary China is the only reformed country in the world; its reform has lasted for 35 years,³ and is not yet complete. Second, the Communist Party of China is the only reformed ruling party in the world, relying on constant improvement and innovation. It is different from the two-party system in the United States, which practices alternate ruling without reform. It handles affairs according to old laws (particularly the *Constitution of the United States*) and rules (such as the *Amendment to the United States Constitution*), which are not only rigid, but also

¹Xi Jinping: Explanation of the *Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

²Deng Xiaoping: *Two Characteristics of the 13th C.P.C. National Congress* (November 16, 1987), *Deng Xiaoping's Selected Works*, Volume 3, P. 258.

³In 1986, Vietnam launched economic reform, and the Sixth People's Congress of Vietnam established a reform and development route for a 'commodity economy based on market mechanisms, managed by the state, with a socialist direction and multiple parts.'

inadequate. Thirdly, China's is the largest reformed society in the world. More than a billion people have become the beneficiaries of the dividends of reform, and sharers of innovation—something that is without precedent in human history. Reform and Opening is the most outstanding characteristic of contemporary China, is also the most distinctive brand of Chinese innovation.

Where did this reform come from? What have been the landmark milestones of the process? What is the status of China's reform today? Where will it go in the future? What information did the Third Plenary Sessions offer to China and the world? What impact did have?

In fact, once China's reform had started, it changed and evolved in accordance with its own development and institutional shifts, to produce cumulative and revolutionary achievements. It can be viewed as revolutionary social change obtained by gradual evolution.

The Third Plenary Session set forth five decisions in five stages:

1. The first *Decision* was made at the Third Plenary Session of the Eleventh Central Committee of the C.P.C. in 1978. It stated that realization of socialist modernization relied on reforming the economic system. The Third Plenary Session and Fourth Plenary Session formulated the *Decision on Several Issues in Speeding up Agricultural Development*, consisting of 25 policies to launch rural reform and comprehensively implement the household contract responsibility system. This was the initiating stage of China's economic reform. It was during the closing meeting of the Central Working Conference before the Plenary Session that Deng Xiaoping put forward his famous theory that some would get rich first.⁴
2. The second *Decision* was made at the Third Plenary Session of the Twelfth Central Committee of the C.P.C. in 1984. According to the task proposed at the 12th C.P.C. National Congress for systematically conducting economic reform, the *Decision on Economic System Reform* was made, developing the comprehensive reform blueprint. It called for a planned commodity economy on the basis of public ownership, and aimed to build a vibrant socialist economic system. This formed the beginning stage of China's economic reform. On the basis of preliminary successes in rural reform, wider economic reform began, with an emphasis on cities. State administration of enterprises gradually changed from direct to indirect control, greatly narrowing the scope of the planned economy. Mandatory plans, guiding plans, and market regulation were conducted. A two-track pricing system was implemented. Various economic forms

⁴Deng Xiaoping said: 'In economic policies, I believe that we should allow regions, enterprises, workers and peasants to gain more income and live a better life through hard work. 'If some people's standard of living is raised first, this will inevitably be an impressive example to their "neighbors", and people in other regions and units will want to learn from them. In this way, the entire national economy will develop continuously under the new wave, and the nation's people will soon be better off. Deng Xiaoping: *Emancipate our Minds, Seek Truth from Facts, Unite as one and Look Ahead*, *Deng Xiaoping's Selected Works*, Volume II, P. 152, Beijing, People's Publishing House, 1993.

(such as national, collective and individual) were developed. Domestic and foreign resources were leveraged to develop both markets, marking a transition period for the creation of a socialist market economy. The decision also clearly encouraged some people to get rich first, which fell in line with socialist progression inasmuch as it was the only way for the whole of society to become rich. At the same time, the Party Central Committee launched scientific, technical and educational reform.

3. A third *Decision* was made at the Third Plenary Session of the Fourteenth Central Committee of the C.P.C. in 1993. According to the goal and basic principle of economic reform defined in the 14th C.P.C. National Congress, the *Decision on Several Issues in Establishing a Socialist Market Economy* was made, with 50 articles in total. It marked the beginning of a new stage, namely establishing a socialist market economy, after the reform, repair and improvement of the original socialist planning system that had already taken place. This was the first overall design and blueprint of the socialist market economy. It proposed many important tasks, such as establishing a modern enterprise system and a national unified and open market, as well as improving the system of macroeconomic regulation and control. Establishing an income distribution and social security system became the basic framework and an important pillar of the new system, and was inherited by later waves of reform. The plenary session also put forth the principle of efficiency and balance equity, as well as the requirements and targets of the newly rich in setting an example for achieving common prosperity.
4. The fourth *Decision* was made at the Third Plenary Session of the Sixteenth Central Committee of the C.P.C. in 2003. According to the strategic deployment put forward at the 16th C.P.C. National Congress for building a perfect socialist market economy and a more vigorous and open economic system, the *Decision on Several Issues in Perfecting the Socialist Market Economic System* was published with a total of 42 articles. Its main innovation was to put forward a people-oriented scientific outlook for development and reform. For this reason it became the major guidebook for China's reform in the first decade of the 21st century. The plenary session reiterated the principle of efficiency and balance equity, and took common prosperity as its goal.
5. The fifth *Decision* was made in the Third Plenary Session of the Eighteenth Central Committee of the C.P.C., with 16 parts and 60 articles (see Table 2.1). It put forward the guiding ideology and major principle for comprehensively deepening reform, establishing an overall goal for 2020. It pushed for the deployment of 'Five in One' reform, along with reform of the national defense and military system, and Party construction. It made a layout for strategic focus, priorities, main direction, working mechanism, propulsion mode, schedule—a road map of reform.

The Third Plenary Session of the Eighteenth Central Committee of the C.P.C. had far-reaching ramifications. As well as functioning as an important meeting that served as a link between past and future, it was a new milestone for China's reform.

Table 2.1 Top-level design of China's reform (1978–2012)

	First occasion	Second occasion	Third occasion	Fourth occasion	Fifth occasion
Plenary session of the central committee of the C.P.C.	Third plenary session of the eleventh central committee of the C.P.C.	Third plenary session of the twelfth central committee of the C.P.C.	Third plenary session of the fourteenth central committee of the C.P.C.	Third plenary session of the sixteenth central committee of the C.P.C.	Third plenary session of the eighteenth central committee of the C.P.C.
Time	December 12–22, 1978	1984 October 20	November 11–14, 1993	October 14, 2003	November 9–12, 2013
Decision name	Decision on several issues in speeding up agricultural development (draft)	Decision on reform of the economic structure	Decision on several issues in establishing a socialist market economic system	Decision on several issues in establishing a socialist market economic system	Decision on several major issues in comprehensively deepening reform
Framework and content		10 parts	10 parts, 50 articles	12 parts, 42 articles	12 parts, 60 articles
Fundamental basis		Part II of the report to the 12th C.P.C. National Congress: Planned commodity economy on the basis of public ownership	Part II of the report to the 14th C.P.C. National Congress: Socialist market economic system	Part IV of the report to the 16th C.P.C. National Congress	Report to the 18th C.P.C. National Congress: 'Five in One' overall layout of socialist modernization
Stage	Initial stage	Overall development stage	Establishing a new system	Perfecting the new system	Comprehensively deepening reform

As General Secretary Xi Jinping said, ‘it is new, because it describes the new blueprint, new vision and new goal of comprehensively deepening reform, and collecting new thinking, new assertions, and new measures.’⁵ It can be viewed as reform version 2.0, if previous iterations had been 1.5 and 1.0.⁶

2.2 High Praise for China’s Reform, and a Summary of Important Experiences

The *Decision* spoke highly of the great achievements and successful practices of China’s Reform and Opening over 35 years since the Third Plenary Session of the Eleventh Central Committee of the C.P.C. Research was conducted on major issues facing the comprehensive deepening of reform, and it was decided that Reform and Opening had been a new revolution conducted by all ethnic groups led by the Party—the most outstanding characteristic of contemporary China in deciding its fate, and an invincible weapon for a party and a people who were making major strides in catching up with the rest of the world.

In January 1956, Mao Zedong claimed that the purpose of the socialist revolution was to emancipate the nation’s productive forces.⁷ He was referring to the ‘Three Great Transformations’, which can be viewed as his own brand of social reform and innovation. He adopted a radical approach, completing the revolution in just three years instead of the expected fifteen. In 1958, the Great Leap Forward and the People’s Commune Movement were launched. Although they reflected a common desire to do away with the backwardness of economy and culture, they flew in the face of objective economic laws. They were also too socialist, too fast, too public (in terms of ownership) and too big. At the time, China was one of the poorest countries in the world, and transcended the development stage with extremely low income. As reflected in the report to the 13th C.P.C. National Congress, the nation suffered many setbacks, and paid a huge price. This kind of situation proves the importance of clearly understanding China’s national conditions and history.⁸ However, the mistakes of Mao Zedong’s later formed the basis of Deng Xiaoping’s successful reform. The 13th C.P.C. National Congress made the basic judgment that China was still in the primary stage of socialism, which became the practical and theoretical basis of Reform and Opening. Deng launched reform in poor, over-populated rural areas first, turning small successes into larger

⁵Xi Jinping: *Explanation of the Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

⁶Hu Angang: *China Needs Version 2.0 Reform*, Guangming Daily, May 15, 2013.

⁷Mao Zedong: *The Objective of the Socialist Revolution is the Emancipation of Productivity*, January 25, 1956, *Mao Zedong’s Collected Works*, Volume 7, People’s Publishing House, P. 1, 1999.

⁸Zhao Ziyang’s *March Forward Along the Socialist Road with Chinese Characteristics—Report of the 13th National People’s Congress of the C.P.C. Central Committee*, October 25, 1987.

ones, making revolutionary achievements, and finding a way to emancipate the productive forces of more than a billion people.

As early as 1992, Deng pointed out in his South Tour Speech that in the past, China had only developed productive forces under socialist conditions, failing to emancipate productive forces through reform, rendering the process incomplete. Emancipating and developing productive forces was the way forward.⁹

Throughout modern Chinese history, the various eras have displayed different outstanding characteristics. First was the revolutionary period, then the founding of New China, and then the time of socialist revolution and construction, followed by Reform and Opening. **The latter not only changed contemporary China beyond measure, but also lasted for the longest amount time and accrued the greatest achievements. During this period, China caught up with the rest of the world in terms of industrialization, modernization and globalization.** Calculated according to the exchange rate, China's G.D.P. accounted for 1.75% of the global total in 1978, ranking tenth place in the world, increasing to 3.75% in 2000, holding sixth place in the world. It further rose to 11.5% in 2012, taking second place. Calculated according to purchasing power parity (against the international dollar in 1990), China's G.D.P. (international dollar price) accounted for 4.9% of the global total in 1978, ranking fourth place in the world. It increased to 11.8% in 2000, taking third place in the world, and further rose to 20.7% in 2012, reaching first place internationally.¹⁰

According to historical data provided by Angus Maddison, the proportion of American exports accounting for the world's total was as much as 16.8% by 1950, while Chinese exports only accounted for 0.9% of the world's total, amounting to 5.3% of American exports. Germany surpassed America in the 1990s.¹¹ According to data provided by the World Bank Database, China surpassed America in 2007, and overtook Germany in 2009, becoming the world's most prominent exporter. Chinese exports amounted to 140.0% of America's in 2013.

China's national territorial area is basically equal to America's. Using the modernization factor of measuring by generating capacity,¹² it can be understood that China's level amounted to that of America, rising from 12.1% in 1980 to 97.2% in 2010, and even surpassing America's in 2013, reaching 126.5%.

⁹Deng Xiaoping's *Selected Works*, Volume 3, P. 370.

¹⁰Data from 1978 and 2000, Angus Maddison, *World Population, G.D.P. and Per Capita G.D.P., 1-2008 AD, 2010*, <http://www.ggd.net/maddison/>, data of 2012 are calculated by the author.

¹¹Angus Maddison: *Review of the World Economy of Two Hundred Years*, Chinese version, PP. 162–163, Beijing, Reform Press, 1997.

¹²Generated energy includes thermal power, hydraulic power, nuclear power and other power (such as geothermal power, solar power, wind power, tidal power and bioenergy power) of all electric power industries, owned power plants, and small rural power plants. The measurement unit of generated electricity is kilowatt/hour. The author assumes 'no modernization without power generation' and 'modernization exists with power generation', because the modernization factor of one state is based on power generation, meaning that various modernization factors will diffuse, spread and be applied. This indicator better represents one state's relative degree to the most developed modernized states (such as the U.S.A.) than other indicators (including G.D.P.).

Table 2.2 China's major indicator level relative to America's (1950–2013). Unit: %

Year	G.D. P. (PPP, Dollar in 1990) ^a	G.D. P. (PPP, current dollars) ^b	G.D. P. (exchange rate method, current dollars) ^c	Exports (exchange rate method, current dollars) ^f	Generating capacity ^d	Number of invention patent application ^e
1950	16.8			5.3	1.2	
1960	21.6				6.8	
1970	20.7			8.2 (1973)	6.7	
1980	24.6		6.6		12.1	
1990	36.6	19.1	6.0	18.0 (1992)	19.5	5.9
2000	53.8	35.1	11.6	31.9	34.0	17.5
2010	114.1	81.0	39.6	123.4	97.2	79.8
2012	129.3	91.0	50.7	132.4	116.0	120.3
2013	137.0	96.2	55.0	140.0	126.5	

Data source

^a1950–2008 data: Angus Maddison: Historical Statistics of the World Economy: 1–2008 AD

^b1990–2013 data: World Bank database, 2014

^c1980–2012 data: World Bank database, 2014

^d*Data source* Data on generating capacity before 1985 are from *New Palgrave World Historical Statistics*, and after 1985, from the BP Statistical Review of World Energy, 2013

^e*Data source* The World Intellectual Property Organization database, 2013

^fData on merchandise exports: 1950–1992 Angus Maddison, *The World Economy, A Two-hundred Year Perspective*, Chinese version, PP. 162–163, Beijing, Reform Publishing House, 1997; Data from 2000–2013: WTO

Viewing the technological innovation of both China and America, the invention patent application quantity can be used to represent technological innovation ability. China's level was zero in 1980, because it did not formally implement the Patent Law until April 1, 1985. By 2012, China's invention patent application quantity had exceeded that of America, amounting to 120.3% (see Table 2.2). Impoverished China developed into a world power with a high level of modernization. **It was a time of major development, in which China made great strides towards catching up with the rest of the world.**

China's accelerated economic reform raised questions both domestically and abroad. Western media outlets and scholars promulgated a distorted view of it, pegging it variously as a free market economy with one-party autocracy, state capitalism,¹³ capitalism with Chinese characteristics,¹⁴ new Confucian capitalism,¹⁵ and

¹³*The Winners And Losers In Chinese Capitalism*, by Gady Epstein, forbes.com, Aug. 31 2010. Dyer, Geoff (13 September 2010). 'State capitalism: China's 'market-Leninism' has yet to face its biggest test'. Financial Times.

¹⁴Huang, Yasheng, 2008a, *Capitalism with Chinese Characteristics: Entrepreneurship and the State*, Cambridge University Press.

¹⁵Bell, Daniel A., 2010, *China's New Confucianism: Politics and Everyday Life in a Changing Society* (New in Paper), Princeton University Press.

politicized capitalism.¹⁶ In addition to international controversy, theories abounded about stagnation, reform regression, reform reversion, a non-market economy, a strong government and weak market, and state-owned enterprises going private. Also rife was the suspicion of crony capitalism inciting the masses to fight against people's government. These arguments intentionally magnified the problems and contradictions that had inevitably cropped up in the process of reform. These included comprehensiveness versus one-sidedness, and pluralism versus individualism. Mao Zedong had warned against a fuzzy view of essential and mainstream aspects, fearing a loss of socialist direction.¹⁷ In light of these contradictions, it is difficult to know how to evaluate China's economic reform of the past ten years.

With a view to establishing a successful socialist market economy and a more vigorous and open system, a report was proposed at the 16th C.P.C. National Congress during the Third Plenary Session of the 16th of the Eleventh Central Committee of the C.P.C. in 2003. The *Decision of the Central Committee of the C.P.C. on Several Issues in Perfecting Socialist Market Economy System* was set out as the overall action plan for China's economic reform, calling for a systematic, specific and operational economy, and effectively guiding Reform and Opening between 2003 and 2012.

A research group at the Institute of National Conditions of Tsinghua University took the *Decision* as a blueprint for the following ten years of Reform and Opening. It used the methods of goal congruence and comprehensive scoring to convert the classification of qualitative objectives into quantitative indexes. This involved six major categories, 36 items and 227 indexes. Checks were conducted on the contents mentioned in 12 parts and 42 articles of the *Decision*, and scientific, objective and comprehensive assessments and quantitative evaluations were made on ten years (2003–2012) of China's economic reform. The aim of this was to ensure scientific, professional and comprehensive assessment and evaluation. The main conclusion of the research group's study was as follows.¹⁸

Significant progress has been obtained in establishing the successful and open socialist market economy proposed by the 16th C.P.C. National Congress and planned by the Third Plenary Session of the 16th Central Committee of the C.P.C. The main tasks were basically completed, with a completion rate of 89.7%, and an incompleteness rate of only 10.3%. The six categories of reform evaluation are shown in Table 2.3.

Our quantitative evaluation of ten years of Chinese economic reform has a ninety-ten ratio, with at least 10% incompleteness. This is mainly reflected as follows: **firstly**, some reform goals were not achieved, such as the perfecting of the modern property rights circulation. Important laws and regulations were discussed but not issued, illustrating

¹⁶Nee, Victor and Sonja Oppen, 2007, 'On Politicized Capitalism,' in Victor Nee and Richard Swedberg (eds.), *On Capitalism*, Stanford: Stanford University Press.

¹⁷*Mao Zedong's Selected Works*, Volume 6, P. 430, Beijing, People's Publishing House, 1999.

¹⁸See detailed analysis in Hu Angang, Tang Xiao and Yan Yilong's *Progress and Evaluation of China's Decade of Economic System Reform (2003–2012)*, Journal of Chinese Academy of Governance, Issue 5 of 2013.

Table 2.3 Comprehensive evaluation of China's economic reform (2003–2012)

Project	Score	Reform dividend	Relative lagging and inadequate aspects
Totality^a	89.7		
1. A basic economic system, keeping public ownership as the mainstay of the economy and allowing diverse forms of ownership to develop side by side ^b	80.0	<ul style="list-style-type: none"> • A basic structure for modern corporate governance of state-owned enterprise is established • A basic non-public economy having equal participation in the market economy competition is established • A preliminary system framework for modern property rights is established 	<ul style="list-style-type: none"> • The supervision of state-owned financial assets, non-operating assets and natural resources assets needs to be strengthened • The corporate system and joint-stock reform of parent companies of central enterprises needs further development • Legislation of the property rights circulation system needs further development • Reform of the market access mechanism in monopolized industries needs further development. • Natural monopolized industry supervision is weak
2. Establishing a system that will gradually change the urban-rural dual economic structure ^c	93.0	<ul style="list-style-type: none"> • Reform of the agricultural tax system is realized • The rural land system is further improved • Further improvements to socialized agricultural services, the agricultural product market, and the agricultural support protection system 	<ul style="list-style-type: none"> • The state's goal of adding funding to public utilities like education, health and culture in rural areas is unfulfilled • Reform of the household registration system (in which labor forces conduct registration in accordance with the place of employment or residence) is unfulfilled
3. Establishing a unified, open and orderly modern market system ^d	92.0	<ul style="list-style-type: none"> • A basic national unified market system is established • Basic multi-level capital and other factor markets are established 	<ul style="list-style-type: none"> • The product quality supervision mechanism is not sound • A credit supervision and disciplinary system has not yet been established

(continued)

Table 2.3 (continued)

Project	Score	Reform dividend	Relative lagging and inadequate aspects
4. Improving the macroeconomic regulation and control system, the system of administrative control, and the system of economic law ^e	88.9	<ul style="list-style-type: none"> • The capability of governmental macroeconomic regulation and control is further enhanced • The government's role in economic management can be further changed • Reform of the administrative management system and construction of economic laws have achieved rapid progress • The investment system is further market-oriented and standardized, and enterprise investment enjoys a dominant position 	<ul style="list-style-type: none"> • An interest rate formation mechanism has not yet been fully realized • A supervision and control system for foreign trade operations and an early warning mechanism for balance of international payments have not been established • Reform of the consumption tax system is not fully implemented • Reform of local tax administration authorities progresses slowly • A unified and standardized property tax system has not been established • The urban and rural tax system has not been unified • The current tax system has limitations in carrying out the government's macroeconomic regulation and control
5. Improving employment, income distribution, and the social security system ^f	93.3	<ul style="list-style-type: none"> • The intensity of tax system reform is strengthened • Reform of the labor employment system was further deepened • Construction of a social security system progressed rapidly • Financial enterprise reform is deepened, the financial regulatory mechanism is 	<ul style="list-style-type: none"> • The personal income monitoring method is imperfect • Position-related consumption is standardized, and reform of social benefits monetization needs to be strengthened • Monetization reform needs to be enhanced

(continued)

Table 2.3 (continued)

Project	Score	Reform dividend	Relative lagging and inadequate aspects
6. Establishing a mechanism to promote sustainable social and economic development ^g	93.5	<div>improved, and the financial supervision mechanism is perfected</div> <ul style="list-style-type: none">• The system for talent introduction, management, and incentives is improved• A basic institutional guarantee of opening to the outside world is established• System reform of science and technology, education and culture is gradually deepened• Health and medical system reform achieves rapid progress, and a health and medical system that adapts to the socialist market economy is established	<ul style="list-style-type: none">• Talent distribution between eastern and western areas is not balanced• International cultural influence needs to be strengthened

^aCalculation indexes are divided into 6 categories, 36 items and 227 indicators

^b6 items in total and 33 indicators

^c4 items in total and 24 indicators

^d9 items in total and 53 indicators

^e9 items in total and 54 indicators

^f3 items in total and 25 indicators

^g5 items in total and 38 indicators

Notes Base year of data in this paper is 2002 or 2003

the difficulty reforming the property rights system at this level. **Secondly**, the intensity of reform in monopolized industries needs to be strengthened, and there are still few effective measures to relax restrictions in market access to monopolized industries and strengthening the effective regulation of natural monopolization.

Again, the overall tax bearing continues to rise, the reform of specific tax categories is slow, and the unification of the urban and rural tax system, property tax reform, and local tax administration authority reform need to be accelerated. **Also**, the order of income distribution is not standard, and there are problems in invisible and illegal income. Progress in position-related consumption and benefit monetization is relatively slow, and a method for personal income monitoring has not yet been established. **Finally**, there are institutional barriers restricting scientific development; transformation of government functions is insufficient, and some fields are prone to corruption.

The area of reform is relatively narrow, lacking integrity and systematization. Reform mechanism design is fragmented and short term, without a fundamental solution and a long-term mechanism. The implementation of reform processes lacks specific measures by which can be inspected, assessed and evaluated.

This needs to be solved within the next decade. New breakthroughs in key areas can be obtained through comprehensive and deepened reform. **We stand today at a new historical starting point, at which 'Five in One' reform is possible only with political resolution.**

The *Decision* made a historical summary of the important experiences gained in Reform and Opening over 35 years, across four aspects:

1. The political orientation of Reform and Opening, most importantly, to adhere to the leadership of the Party, carry out the basic Party line, avoid a closed and rigid path, avoid slipping back into old ways,¹⁹ embrace socialism with Chinese characteristics, and ensure the correct direction of reform. Since the beginning of the reform era, there have been three different political orientations, or roads. In 1982, the report to the 12th C.P.C. National Congress clearly pointed out that the Party, especially party committees at all levels, was to adhere to the Four Fundamental Principles, **following the path laid out at the Third Plenary Session of the 11th Central Committee of the C.P.C. The idea was not only to oppose the 'leftward' deviation of attempting to go back to the 'error theory and policy' of the Cultural Revolution period, but also object to the 'rightward' deviation of doubting and denying bourgeois liberalization of the Four Fundamental Principles.**²⁰ The *Decision* made at the Third Plenary Session of the 11th Central Committee of the C.P.C. in 1984 also explicitly put forward that the goal of economic reform was to infuse new vitality into socialism with Chinese characteristics. This was not only distinct from the rigid

¹⁹The part in bold has been added into the final manuscript.

²⁰Hu Yaobang: *Comprehensively Initiating the New Pattern of Socialist Modernization Construction—Report at the 12th National People's Congress of the C.P.C. Central Committee*, September 1, 1982.

model of the past, but also completely different from capitalism.²¹ In 1992, Deng Xiaoping remarked in his South Tour Speech that in just ten years, China had obtained rapid development, raising living standards and receiving attention from the rest of the world. **In his view, this proved that the principles and policies espoused at the Third Plenary Session had been correct, and should not be changed.**²² In fact, in Reform and Opening, China faced one fundamental question: how to determine which political orientation to choose and which road to take. To this end, the Party Central Committee was conscientious in eliminating distractions, sticking to a single political line since the Third Plenary Session. It created a path unique to China, avoiding both the closed and rigid road, and the capitalist way. Mao Zedong said, **‘Whether the ideological and political lines are correct or not decides everything.** The correct Party line can obtain everything, including people, military strength, and political power. If the line is incorrect, it should be discarded. The line is a key link, and once it is grasped, everything else falls into place.’²³ Only by selecting the correct political orientation can Reform and Opening be achieved. Disruptive decision-making errors must be avoided, to prevent consequences such as collapse of the Soviet Union and,²⁴ and the²⁵ fall of Communism. Xi Jinping

²¹The C.P.C.’s *Decision on Economic System Reform* was approved at the Third Plenary Session of the 12th C.P.C. Central Committee on October 20, 1984.

²²Deng Xiaoping’s *Selected Works*, Volume 3, P. 371.

²³Mao Zedong: *Summary of the Conversation with Local Responsible People During the Inspection Tour* (August–September, 1971), *Mao Zedong’s Manuscript Since the Founding of the P.R.C.*, Book 13, P. 242, Beijing, Central Party Literature Press, 1998.

²⁴The USSR was founded on December 20, 1922 with 15 republics, and was dissolved on December 25, 1991. On March 11, 1991, the Republic of Lithuania was first to announce independence, with other republics following suit. Fifteen countries exited (including two eastern Slavic nations, three Baltic countries, five countries in Central Asia, three countries in Transcaucasia, and Moldova) On December 25, 1991, Mikhail Gorbachev signed his last presidential decree, resigning from the highest post of Commander in Chief of armed forces, and transferring the armed forces and nuclear power to the President of Russia, Boris Yeltsin. That same night, Mikhail Gorbachev delivered his resignation address. On December 26, the Supreme Soviet Republic of the USSR convened its last conference, and representatives approved a declaration by vote. The declaration stated that the **Soviet Union would cease existing as a country and subject of international law**, along with the establishment of a commonwealth of independent states.

²⁵In 1945, the Social Democratic Alliance of Yugoslavia was rebuilt after the war. In 1946, it was renamed the Socialist Federal Republic of Yugoslavia. It implemented federal system consisting of six republics: Serbia, Croatia, Slovenia and Bosnia-Herzegovina (BH), Macedonia and Montenegro. In 1991, Slovenia, Croatia and Macedonia declared independence. In 1992, Bosnia-Herzegovina followed. The Socialist Federal Republic of Yugoslavia was dissolved, and two allied countries Serbia and Montenegro composed the Federal Republic of Yugoslavia. In 2003, it was renamed Serbia and Montenegro (Serbia-Montenegro for short), and dropped the name ‘Yugoslavia’. In 2008, Kosovo separated from Serbia and became independent.

The former Yugoslavian territory is now divided into the following independent sovereign countries: the Republic of Slovenia, Croatia, Bosnia and Herzegovina, Republic of Serbia, Republic of Montenegro, Republic of Macedonia, and Republic of Kosovo.

remarked that all Third Plenary Sessions since Reform and Opening discussed the problem of deepening reform. This sends an important message, namely that the Party will maintain the **theories, guidelines and policies it has upheld since the Third Plenary Session of the 11th Central Committee of the C.P.C.**²⁶

2. The ideological line of China's reform and opening up, namely, emancipating the mind, seeking the truth from facts, keeping pace with the times, being realistic and pragmatic, and proceeding from reality to summarize China's successes,²⁷ drawing lessons from foreign experience, and having the courage to promote innovation both in theory and in practice. An ideological line can only be developed gradually, first through emancipating the mind and seeking the truth from facts put forward by Deng Xiaoping,²⁸ then through keeping pace with the times as prescribed by Jiang Zemin,²⁹ and finally through being realistic and pragmatic like Hu Jintao.³⁰ By adhering to the correct ideological line, the nation can be more successful going forward. Even if unavoidable problems occur, immediate, timely and flexible adjustments can be made.

Two points must be emphasized. One is that reform itself is a process of practice, and there will always be problems and deviations, as well as mistakes and shortcomings, and conflicting views and opinions. They shall not be mistaken for political disorder. The *Decision* made in the Third Plenary Session of the 12th Central Committee of the C.P.C. explicitly stated that a political label should not be given. Different views and theoretical perspectives on reform could be discussed, but it was forbidden to divide cadres and the masses into 'innovationist' and 'conservative' camps. Comrades who were unable to keep up with the situation were forced to raise their awareness of the practice of reform.³¹ It could be said that there are too many labels now, including 'conservative' and 'self-styled reformer'. Marketization and privatization is the work of 'innovationist', while the opposite is espoused by the 'conservative'. Further complicating the issue is the fact of China's political situation being simplified and popularized, in a Marxist paradigm.³² Also, reform is the social practice of innovation. On the one hand, lessons must still be drawn from foreign countries, particularly developing

²⁶Xi Jinping: *Explanation of the Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

²⁷The part in bold has been added into the final manuscript.

²⁸Deng Xiaoping: *Emancipate our Minds, Seek Truth from Facts, Unite as one and Look Ahead*, (December 13, 1978), *Deng Xiaoping's Selected Works*, Volume II, P. 140.

²⁹*Constitution of the Communist Party of China* (Amended and adopted at the 16th C.P.C. National Congress), November 14, 2002.

³⁰*Constitution of the Communist Party of China* (Amended and adopted at the 18th C.P.C. National Congress), November 14, 2012.

³¹The C.P.C.'s *Decision on Economic System Reform* was approved at the Third Plenary Session of the 12th C.P.C. Central Committee on October 20, 1984.

³²Mao Zedong indicated that the essence and living soul of Marxism is concrete analysis of concrete issues. Mao Zedong: *On Contradiction* (August, 1937), *Mao Zedong's Selected Works*, Volume 1, Beijing, People's Publishing House, 1991.

countries that copy Western political systems, leading to environmental inadaptability and state failure. On the other hand, **it is necessary to learn from China's Reform and Opening in a practical sense, and combine learning with innovation. Learning from others is the lynchpin of innovation.**

3. The guiding ideology of Reform and Opening, namely, adhering to a people-oriented paradigm, respecting the principal position of the people, giving play to a pioneering spirit, and relying on the people to promote reform and facilitate the human development.³³ **The core viewpoint of this guiding ideology is to return to a subjective theory of the people. The people are both the subject and the beneficiary of China's Reform and Opening. Whether reform can succeed or not depends on whether the people participate democratically, whether the reform gains their endorsement and support, and whether it benefits and is shared by the masses. Thus, the rightful lines of reform belong to the people and the masses. What was once the people's war became the people's reform. The people's war brought victory over the Japanese and liberated the nation.**³⁴ Consequently, the people's reform brought large-scale opening-up. It provided a basic principle for comprehensively deepening reform in the next decade or longer.
4. The methodology of Reform and Opening, namely, deciding whether a bridge or a boat is better for crossing a river, metaphorically speaking. First, the relationship between reform, development and stability must be considered. In February and March, 1989, Deng Xiaoping presented the core idea that stability was the top priority,³⁵ and the bottom line of reform. However, Zhao Ziyang failed to implement this policy, leading to the political turmoil of 1989. The Party Central Committee headed by Jiang Zemin finally put the policy into practice after the Fourth Plenary Session of the 13th Central Committee of the C.P.C. By this time, China had withstood aftermath of 1989, and had borne the

³³The part in bold was added into the final manuscript.

³⁴During the eight years of the War Against Japanese Aggression, the People's Army led by the C. P.C. fought 125,000 battles with its adversaries, wiping out over 1.7 million people. During the three years of war of liberation, the People's Army defeated 38 million Kuomintang soldiers, and won victory. Lin Biao: *People's War Victories of 10,000 Years—Commemorating the 20th Anniversary of the Chinese People's Anti-Japanese War*, September 3, 1965, C.P.C. Party Literature Research Office: *Important Selected Literature Since the Founding of the P.R.C.*, Book 20, P. 415, Beijing, Central Party Literature Press, 2011.

³⁵On February 26, 1989, when meeting US President Bush, Deng Xiaoping claimed that 'stability trumps everything'. *Deng Xiaoping's Selected Works*, Volume 3, People's Publishing House, 1993, PP. 284–285, March 4. From a conversation with Zhao Ziyang and Deng Xiaoping: 'The key point of four-fold modernization, reform, and opening up is stability. 'I have discussed China's issue with Bush, and the demand for stability trumps everything. We must counter any forces that threaten stability, not yielding to them or even making any concessions. China cannot fall into chaos. We must talk about it repeatedly and openly. Or, it will be as if we had no reason. We have to send out a signal that China will tolerate no disturbances.' *Deng Xiaoping's Selected Works*, Volume 3, People's Publishing House, 1993, PP. 286–287.

impact and influence of the Fall of Communism and the collapse of the Soviet Union.

Jiang Zemin conducted a discussion on the ‘Twelve Major Relationships’ at the Fifth Plenary Session of the 14th Central Committee of the C.P.C. in 1995. The most important was the First Major Relationship, namely the correct handling of the relationship between reform, development and stability. Reform was power, development was the goal, and stability was the prerequisite. Jiang pointed out **that practice had showed how proper handling of the relationships between the three could improve the overall situation and ensure smooth economic and social development, while improper handling would not.**³⁶

The Second Major Relationship called for great courage and a stable pace. The latter called for overall consideration, comprehensive arguments, and scientific decision-making.³⁷ This points to the fact that China's reform has been a process of gradualism—from ease to difficulty, from partial to whole, from economic system reform to political system reform, and finally to other forms of system reform. At the same time, for the onward march of Reform and Opening, major milestones include the fiscal and taxation system reform of 1994, China's access to the World Trade Organization (WTO) in 2001,³⁸ and the medical system reform of 2009. These are all successful examples of long-term dividends.

‘Strengthening the top-level design and looking before you leap shall be combined’.³⁹ So said Mao Zedong. In 1941, he pointed out that if a Chinese Marxist fails to know this, he or she is not a good Chinese Marxist. **Marx said that the difference between a bee and the people is that people have to have a design in mind before building a house. So, to build the house of Chinese revolution, we must first make a design—incorporating both large and small details.**⁴⁰ According to the top-level designs for reform in all previous Third Plenary Sessions, China's reform has been accomplished using a series of 10-year blue-prints and roadmaps in the form of the various *Decisions*. ‘Looking before you leap’ is trial-and-error method, which was first suggested by Chen Yun. In 1980, Chen said that reform was necessary, but at a stable pace. The situation was complicated, meaning that a hasty approach would not work. There has never been any doubt that reform depends on theoretical research, financial statistics, and economic forecasts, **but the most important thing is to begin with a trial, namely, looking before you leap. At the beginning, the pace should be slow.**

³⁶Jiang Zemin: *Correct Handling of Several Important Issues in the Socialist Modernization Drive*, September 28, 1995, *Jiang Zemin's Selected Works*, Volume 1, People's Publishing House, 2006, PP. 460–461.

³⁷Xi Jinping: *Explanation of the Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

³⁸In December, 2001, China entered WTO. *Over the past 12 years, China's foreign trade scale jumped to second place from seventh in the world.*

³⁹The part in bold was added into the final manuscript.

⁴⁰*Mao Zedong's Collected Works*, Volume 2, People's Publishing House, 1999, P. 344.

Reform should allow for adjustment, as well as success.⁴¹ Looking before you leap thus became the most important philosophical methodology of the reform process.⁴² Combined with strengthening the top-level design, it created a complete reform methodology.⁴³

Wholesale advancement and key breakthroughs helped to⁴⁴ increase the scientific nature of reform. In 1993, the *Decision* made at the Third Plenary Session of the 14th Central Committee of the C.P.C. put forward a method of combining wholesale advancement and key breakthroughs. Some major reform measures needed the plan first, and were carried out in aspects related to the economic system; some conducted local tests first, and then were popularized after being trialed. Global reform was achieved this way.⁴⁵ For a basic idea of how to solve the problem of reform, **it can be viewed as an arrow (or numerous arrows) hitting a target. This can** be explained further by one of Mao Zedong's 'Ten Great Military Principles': **if the powers of all parties are concentrated, reform problems will be solved one by one.**⁴⁶ This was an important principle for comprehensively deepening reform. **'We shall not fight an unprepared and uncertain battle. We must be prepared', Mao said.**⁴⁷ It is a case of building consensus to form a resultant force of reform. The dialectics and the methodology of Reform and Opening came directly from China's inherent wisdom.

Experience engenders knowledge. Knowledge starts with practice, and knowledge of reform must therefor start with practice of reform. Knowledge is power, and as such, reform knowledge is reform power. Profound lessons must be kept in mind.

⁴¹Chen Yun: *Economic Trends and Lessons* (December 16, 1980), *Chen Yun's Selected Works*, Volume III, P. 279, Beijing, People's Publishing House, 1995.

⁴²'Step by step' is a method of dealing with an uncertain matter. Based on feedback, it is necessary to make adjustments, and eliminate the possibility of radical and abrupt changes at any point. Advancing step by step is considered to have included the philosophical methodologies of the reform of the entire economic system. Wang Hui: *Progress Revolution: China's Reform Shakes the World*, Chinese Version, P. 31, Beijing, China Planning Press, 1998.

⁴³Hu Angang: *Top Design and Advancing Step by Step*, *People's Forum*, Issue 9 of 2012.

⁴⁴The part in bold was added into the final manuscript.

⁴⁵The C.P.C.'s *Decision on Several Issues about Building Socialist Market Economic System* was approved in the Third Plenary Session of the 14th C.P.C. Central Committee on November 14, 1993.

⁴⁶This refers to the military principles proposed by Mao Zedong: concentrating advantageous military forces, and destroying the enemy. Mao Zedong: *Concentrating Advantageous Military Forces, Destroying the Enemy*, September 16, 1946, *Mao Zedong's Selected Works*, Volume 4, People's Publishing House, 1991, P. 1197.

⁴⁷Mao Zedong: *Current Trends, and Our Tasks*, December 25, 1947, *Mao Zedong's Selected Works*, Volume 4, People's Publishing House, 1991, P. 1247.

2.3 The Guiding Ideology of the Decision and the Overall Goal of Comprehensively Deepening Reform

The *Decision* put forward the guiding ideology for comprehensively deepening reform, which could be viewed in modern terms as ‘version 2.0’. It adhered to the direction of a socialist market economy, and emphasized the promotion of social justice and the improvement of people’s livelihoods. It set the goal benefiting more people more fairly (e.g., Part XII in the *Decision*). This was different from the ‘1.0 version’, which encouraged some people to get rich first, and called for a principle of efficiency and ‘balance equity’. It was ‘people oriented’, based on the well-being of more than a billion Chinese citizens. **This was the value orientation of China’s reform, as well as its ultimate goal, and a benchmark of successful deepening.** More efficient development was required, along with fairer and more sustainable methods. It was not merely a case of emancipating and developing productive forces, but also enhancing social mobility.

It is possible to take a more generalized view of the productive social forces at play. They not only included material, scientific and technological forces, but also education, culture, ecology, and national defense. Social mobility could also be seen as more generalized, covering enterprises, markets, science and technology, as well as social order (as mentioned in article 48 of the *Decision*), education, and culture. It fixed defects in the economic system and mechanism, and augured a new era thereof.

The *Decision* put forward the overall goal of comprehensively deepening reform, namely improving and developing the system of socialism with Chinese characteristics, promoting the modernization of state governance and strengthening its power. General Secretary Xi Jinping believed that this was the inevitable requirement of upholding and developing socialism with Chinese characteristics, and a necessary principle in realizing socialist modernization.⁴⁸

Both capitalism and socialism are historical products of development and progress of human civilization. Compared with feudal and traditional agricultural societies, a capitalist society represents a tremendous advance. It relies on a major development of productive forces, and progress in production relations and superstructure. The emergence and development of socialism hangs on the same principles. The ideology of utopian socialism came first, followed by the scientific socialism of Marx and Engels after the 1840s. However, it wasn’t until the October Revolution of 1917 in Russia that a real socialist society came into being, when the first socialist country in the world was founded. In modern times, both capitalism and socialism have changed the face of the world, including China. China was invaded by capitalist forces for the first time in 1840, offering major challenges to the Qing Dynasty. The relationships between China, the West, and Japan have always been complex, taking the various forms of strong and weak, and thief and

⁴⁸Xinhua News Agency, Beijing, February 17, 2014.

victim. With modernization, the relationships shifted towards student and teacher, and lagger and precursor. Mao Zedong claimed that establishing a capitalist society under dictatorship of the bourgeoisie in China would not meet the approval of foreign capitalism, i.e. imperialism. Imperialists invaded China, opposed its independence, and objected to the development of capitalism.⁴⁹ On the one hand, growth of modern local capitalist factors caused monopolistic exclusion from Western and Japanese capitalism; on the other hand, the powerful bullied the weak. By 1949, China was the most impoverished it had ever been, and lagged behind the rest of the world. It ultimately chose socialism, bidding farewell to a century of suffering and decline, and opening a new chapter of prosperity and rejuvenation.

Of course, China's socialist era is merely a short phase in its long history.⁵⁰ Mao Zedong remarked at the Congress of Seven Thousand People in 1962 that the development of capitalism took hundreds of years. Excluding the 16th century, it began in the Middle Ages. From the 17th century until today, there have been more than 360 years. With this in mind, it isn't so much of a stretch to imagine that building a powerful socialist economy may take more than a century. **Mao pointed out that since socialism was superior to capitalism, the development of China's state would be much faster than that of capitalist countries.**⁵¹

Mao's strategic assumption can be seen as the 'Chinese dream'—a vision of empowering China. His forecast can be called the 'Mao Zedong prediction'—building a powerful socialist country.

At the same Congress, Mao also spoke of a blindness towards socialist construction. He saw many unrecognized realms of necessity in the socialist economy. 'I know little about the productive forces. Knowledge within the Party is not enough for socialist construction.'⁵² Things remained unclear until the report to the 13th C.P.C. National Congress in 1987, which showed that China's basic national conditions were typical of a large population and a weak economic foundation. Per capita gross national product (GNP) ranked fairly low in the world, which was not uncommon for a nation in the early days of socialist development.⁵³

In 1992, Deng Xiaoping pointed out in his South Tour Speech that the consolidation and development of a socialist system would take time and effort.⁵⁴ Since the 1950s, there have only been a handful of generations. Unsurprisingly, Deng's socialist society was not perfect. However, with continuous reform, progress and improvement, things began to look up. Deng made it clear that developing and

⁴⁹Mao Zedong's *Selected Works*, Volume 2, P. 679.

⁵⁰Mao Zedong Re-ascending Jinggangshan—to the tune of *Shui Diao Ge Tou* (May, 1965). Therein, he wrote: 'Thirty-eight years fled, with a mere snap of the fingers.'

⁵¹Mao Zedong's *Selected Works*, Volume 8, PP. 301–302, Beijing, People's Publishing House, 1999.

⁵²Mao Zedong's *Selected Works*, Volume 8, PP. 302–303, Beijing, People's Publishing House, 1999.

⁵³Zhao Ziyang's *March Forward Along the Socialist Road with Chinese Characteristics*—Report at the 13th National People's Congress of the C.P.C. Central Committee, October 25, 1987.

⁵⁴Deng Xiaoping's *Selected Works*, Volume 3, PP. 379–380.

improving socialism with Chinese characteristics would take much longer than actually establishing the system. **Deepening reform was the key.**

A highlight of the *Decision* was the idea of modernizing the state governance system and governance ability. Ten years ago, I edited *State System Construction* (Tsinghua University Press 2003) alongside Wang Shaoguang, and Zhou Jianming, and conducted research into this matter. We concluded that a country's modernization must include at least two important aspects. One is economic modernization, such as the modernization of agriculture, industry, science and technology, and national defense. The other is system modernization. Good governance of national security and territorial integrity must also be achieved to ensure the maximization of national fundamental interests and the well-being of the people. Also essential are economic development and economic stability; social justice and human security; political probity and social stability; and ecological balance and environmental protection. State system construction is the basic system and infrastructure of a modern state, and is strongly related to the economic construction of the modernization of the state. Achieving modernization of the state system is the most important goal of a modern state, for the benefit of the nation. If modernization has no state system, modernization of the state economy will not be achieved. System construction is not an economic construction in itself, but is the basic condition for promoting economic construction and ensuring its sustainable development. The basic system of the state includes at least eight mechanisms: enforcement; absorption; consensus; supervision; coordination; expression; integration; and redistribution. In order to build a socialist democracy, four major political reforms must be implemented, namely, reform of the Party, reform of the National People's Congress, reform of the government, and reform of the judicial system. We also believe that system construction is the most significant transformation of the ruling method of the Communist Party of China. The system of Party and state reform is the core of China's political system, is also the root of modernization (both economic and systemic) in China. It must thus be a priority for the Party. Due to theoretical limitations on the understanding of modernization, we have not yet realized the 'Five in One' model for modernizing Chinese socialism. However, the basic tenets of 'Four in One', 'Five in One'⁵⁵ and 'Six in One' modernization (including the modernization of national defense and the army)⁵⁶ have gained traction in during the Eleventh Five-year Plan, the Twelfth Five-year Plan and the 2020 China study.

Today, the modernization of the state has two different aspects. One is tangible modernization, including economic, political, cultural, social, and ecological civilization construction. The other is intangible modernization, namely, the construction of a state system.

⁵⁵Hu Angang, Yan Yilong: *China: Entering 2015*, Zhejiang People's Publishing House, 2010.

⁵⁶Hu Angang: *2020 China: Comprehensively Building A Moderately Prosperous Society*, Tsinghua University Press, 2012.

From the theoretical basis of the reform, the basic principle of Marxism asks how production relations adapt to the development of productive forces, and how superstructure adapts to the development of the economic foundation. This constitutes the two-dimensional modernization of a state. One dimension is tangible, and the other is intangible. I call China's optimal path a '45 degree angle', consisting of mutual effect, mutual promotion and mutual adaptation. Intangible modernization is seen in public welfare. It is different from visible public products, such as education, health and other public services. The converse case is what we see today: state failure in Libya and Egypt. Neither can provide national public welfare, and are unable to provide national public products.

China's modern state governance began with the principle of Marxism, and developed along the lines of production relations and productive forces, adapting its superstructure and economic foundation. To this end, Mao Zedong made major efforts, which were reflected in his speech entitled *Problem on the Correct Handling of Contradictions among the People* in 1957.⁵⁷ However, he failed to solve this problem, leading to a profound historical legacy from which important lessons have been learned.

The Communiqué of the Third Plenary Session of the 11th Central Committee of the C.P.C. in 1978 stated that a realization of the four modernizations (agriculture, industry, national defense, and science and technology) necessitated a change in production relations. The superstructure had to adapt to the development of productive force in many aspects. Management, activity and thought had to be adapted

⁵⁷Mao Zedong's address at the 11th (expansion) Conference of the Supreme State pointed that **'in a socialist society, there is still a basic contradiction between production relation and productivity, and between superstructure and economic base. However, such contradictions in a socialist society essentially have different essences and conditions with the contradiction between production relation and productivity, and the contradiction between superstructure and economic base.** Our social institution at present is so superior to that of the old times. If it was not superior, the old institution would not have been overturned, and the new institution would not have been built. **So-called socialist production relations are more suitable for productivity development than for the production relations of the old times, which means allowing productivity to develop rapidly at a speed not known by the former society. Thus, productivity can develop continuously, and the people's increasing demands will be gradually met.** Under the rule of imperialism, feudalism and bureaucratic capitalism, the productive forces in old China grew very slowly. Over 50 years before the liberation, except in the north-east, the national steel production capacity was only tens of thousands tons, and the maximum annual production capacity was only over 900,000 tons. In 1949, the national steel production capacity was only hundreds of thousands tons. However, no more than seven years after national liberation, the steel production capacity shot up to over four million tons. In old China, there was almost no machine manufacturing industry, let alone auto manufacturing and aircraft manufacturing, but now such industries have been built. When the people overturn the governance of imperialism, feudalism and bureaucratic capitalism, where will China go? **Will it turn to capitalism or socialism? It was difficult to predict, but reality has answered the issue: only socialism can save China. The socialist system has promoted the rapid development of China's productivity,** a fact that has even been acknowledged by foreign adversaries'. *Mao Zedong's Collected Works*, Volume 7, People's Publishing House, 1999, P. 214.

in order for any revolution to take place. **The theory of Marxism is the theoretical basis of China's Reform and Opening.** However, the Party had very little experience and knowledge initially about how to adjust the productive forces, production relations, superstructure and economic foundation, not to mention how to reform the economic system. Yet after much success and failure, a new understanding was gained of China's national conditions. The trial-and-error method of 'looking before you leap' was used for exploration, practice and summary. **It is possible to state with confidence that China has settled on a 'five in one' path to comprehensively deepening reform and modernizing the state system.**

The 35-year journey of Reform and Opening seems to offer proof that the Communist Party of China has the ability to conduct effective governance of the country with a billion-plus people from 56 ethnic groups. It has developed an understanding that involves consciousness, initiative and creativity. This was created during the great 'social practice' under the guidance of innovative theory. Modernization of the state system and comprehensively deepening reform will speed up the development of the socialist market economy, develop a socialist democracy, promote an advanced socialist culture, and build smooth-running society, while constructing a socially-sound civilization.

From this perspective, the *Decision's* ideas about the general goal of comprehensively deepening reform **can offer a new understanding of what modernization is (specifically in China), how to realize it under China's national conditions with outside knowledge and theory. It has been a long-term historical process of learning and exploration.** So in essence, **the goal may guide China for at least half a century, and make a forward-looking and strategic general plan, as well as an entire layout and overall design for the first half of the 21st century.**

The Party Central Committee not only put forward the general goal of comprehensively deepening reform, but also proposes goals for 2020. According to main goal of the report to the 18th C.P.C. National Congress, the *Decision* stated that decisive achievements will be made by 2020 in the reform of key areas and key links. A system that is complete, scientific, and standardized, fully operational would be established, making the overall system more mature and stable. This was Deng Xiaoping's strategic conception. He said in his South Tour Speech in 1992: 'I think I still need another thirty years to establish a more mature and stable system in all aspects. The principles and policies to be applied under each system will be more firmly established'.⁵⁸

This reflects the fact that China's state system construction and system reform is a process of combining 'looking before you leap' with top-level design. **It must experience its own development logic and developmental stage, from low to intermediate, then to more advanced, and finally to the most advanced stage. Continuous innovation, trial and error, and adjustment must be made in the**

⁵⁸Deng Xiaoping's *Selected Works*, Volume 3, P. 372.

process of evolution. China determined its strategic conception in 1992, has been maintaining development ever since, towards the goal of 2020. This is an ambitious target, but one that can be reached with effort.

2.4 Construction and Reform of a ‘Five in One’ System

The key word for this type of reform is ‘comprehensiveness’, as reflected in the top-level design of the *Decision* made in the plenary session. It includes construction and reform of the economic system, political, cultural, and social, systems.

‘Comprehensiveness’ is reflected in two aspects of system construction and reform. Everything has two sides. They are both contradictory and unified, and conduct mutual transformation under certain conditions. This provides an understanding of what the socialist system is, and what modernization is. **The aim of system construction is to make, perfect and develop various systems. The so-called system reform is to break and get rid of defects in various systems. During the era of Reform and Opening, the primary ideology was first to make, and then to break.** This is very different from the opinion of ‘breaking shall be first, with making among breaking’ advocated in the *May 16th Notice* during the Cultural Revolution.⁵⁹ In March, 1949, Mao Zedong said in the Second Plenary Session of the 7th Central Committee of the C.P.C. that ‘we shall not only be good at breaking the old world (old China), but also be able to build a new world (New China).’⁶⁰ More than 60 years later, the road towards building a New China is still being hoed. Such a development trajectory is unprecedented both in Chinese history, and in the wider world.

The ‘Five in One’ system design was the highlight of the *Decision* made in the plenary session. It established a relationship of mutual support with the overall layout of ‘Five in One’ socialist modernization including the construction of economic, political, cultural, social, and ecological systems put forward in the report to the 18th C.P.C. National Congress. Objectively speaking, **system construction and reform provide an institution guarantee—security and safeguarding for achieving the overall goal of ‘Five in One’.** It can be seen as the Party Central Committee’s large-scale planning, grand strategy and great layout.

What exactly did the strategy involve? In 1936, Mao Zedong pointed out in the *Strategic Issues of China’s Revolutionary War* that with war comes an overall situation of war. **Strategic issues are used to study the law of the overall situation of the war.**⁶¹ Development is like war. As long as there is practical

⁵⁹The *Notice* claimed that Mao Zedong often said: ‘There is no making without breaking.’ *Breaking refers to criticism, namely, revolution. Making refers to reasoning. With breaking, making is realized.* Notice of the C.P.C. Central Committee, May 16, 1966.

⁶⁰Mao Zedong’s *Selected Works*, Volume 4, P1439, Beijing, People’s Publishing House.

⁶¹Mao Zedong: *Strategic Issues of China’s Revolutionary War*, December, 1936, *Mao Zedong’s Selected Works*, Volume 1, People’s Publishing House, 1991, P. 175.

development, there is an overall situation of development. A development strategy is like a war strategy. It must consider the overall situation and the law of the development. Correctly developing a national development strategy leads to developmental achievements.

What is the strategy behind Socialist modernization in China? It is used to study the overall situation and the law of socialist modernization in China. The Party's understanding is constantly enriched, expanded and enhanced with the practice and progress of China's modernization, moving from the realm of necessity towards freedom.

From the 1950s to the 1970s, Mao Zedong put forward the strategic conception of realizing 'four modernizations' by the end of the 20th century, which took strengthening the state as the core goal. In the 1980s, Deng Xiaoping revealed the 'two-step' and 'three-step' strategic conceptions of socialist modernization, which took raising wealth as the core goal, as well as strengthening the state. On entering the 21st century, the 16th C.P.C. National Congress settled on a 'Three in One' layout for socialist modernization, for the construction and reform of the economic, political, and cultural systems. The 17th C.P.C. National Congress moved towards a 'Four in One' layout, adding construction and reform of the social system.

In 2012, the 18th C.P.C. National Congress redefined the general goal of 'Two Centenaries' in the first half of the 21st century. It put forward a more complete 'Five in One' overall layout for socialist modernization, namely the construction of economic, political, cultural, social and ecological construction.

In 2013, according to the deployment of the 18th National Congress of the C.P.C., the Third Plenary Session of the 18th Central Committee of the C.P.C. made 'Five in One' the overall layout of socialist system modernization and system reform in all aspects.

The *Decision* made at the Third Plenary Session of the 18th Central Committee of the C.P.C. put forward the general goal of comprehensively deepening reform, and set a specific goal for reform in several areas, requiring the comprehensive promotion of 'Five in One' reform in the economic, political, cultural and social systems. The goals for specific areas were to perfect and reform the systems of socialist economy, socialist democracy, socialist culture, social management, and ecology. It reflected a new view on Mao's 'making and breaking, breaking for making'.

It held that modernizing China's state system would not only respect the law of the market economy, but also heed the rules of social development cultural inheritance, and nature; it would motivate and inspire market innovation and innovation of property rights, as well as education (as in Article 42 of the *Decision*), science and technology (as in Part XIII of the *Decision*), ecological civilization (as in Part XIV of the *Decision*), cultural innovation and social innovation; it would emancipate economic, scientific and technical productive forces, as well as those of social management, culture, education, and ecology. Another aim was to break down the old economic system and mechanism defects, as well as problems within the political, cultural, social and ecological systems. It would develop the socialist market economy and democracy, promote an advanced socialist culture, build a

smooth-running socialist society and construct an ecological civilization. In addition, it would create monetary, cultural, spiritual, ideological and ecological wealth. **This went against the Western free market economic system, material modernization and political democratization. It did not merely involve cultural, social and ecological construction, but expanded the innovation of the socialist market economic system, coordinating with other systems than just socialism with Chinese characteristics.**

In addition to the ‘Five in One’ system for construction and reform, the Third Plenary Session covered reform of national defense, bringing it into its overall plan and top-level design. Although there were only three aspects, each was critically important for reform. Xu Qiliang said⁶²: ‘I think this is an important characteristic of the *Decision*. Of course, when determining to conduct economic system reform in the 1980s, military reform was mentioned. It was researched and discussed at the Central Military Commission, but was not included in the decision of the Party Central Committee.’

The plenary session called for comprehensive deepening of reform. It involved many aspects, and gave clear answers to questions about what would be reformed and how. The written arrangement of the *Decision* contained 16 parts and 60 articles, involving 15 areas. Among them were five parts on economic system reform, three parts on political system reform and two parts on social system reform. There were 55 articles about major reform tasks, and more than 330 reform measures. Compared to the *Decision* made at the Third Plenary Session of the 16th Central Committee of the C.P.C. in 2003, there were an additional 19 major reform tasks and more than 100 reform measures. **It was a grand blueprint for comprehensively deepening reform with the largest scope, comprehensiveness and effort**, viewed by the international community as an ‘**ambitious and deliberate plan**’ for China’s reform.

In order to comprehensively deepening reform, the plenary session set up a leading group that was responsible for the general design, overall coordination, advancement, supervision and implementation of the reform.

A review of the reform process over the past 35 years looks first to the economic reform of the early 1980s. In May 1982, the State Commission for Economic Restructuring was established out of the former System Reform Office of the State Council, first with the premiers of the State Council (Zhao Ziyang and Li Peng) serving as directors, followed by Li Tieying. During the institutional reform of 1998, the State Commission for Economic Restructuring was officially revoked, and changed to the Economic System Reform Office of the State Council. In March 2003, during the institutional reform of the State Council, the Economic System Reform Office of the State Council and the State Development Planning Commission were merged to form the National Development and Reform Commission, which exists to this day.

⁶²See Xu Qiliang: *Unswervingly Promote National Defense and Army Reform*, People’s Daily, November 21, 2013.

The Party Central Committee set up a leading group for comprehensively deepening reform under the leadership of the Political Bureau of the Central Committee of the C.P.C. and its Standing Committee. The group's main responsibilities were to make unified deployments of major national reform measures, promote reform in all areas, coordinate personnel from all parties to form a force for reform, strengthen supervision and inspection, and promote the full implementation of the target tasks.⁶³ This was to prepare China to enter a new era of comprehensive reform—'Five in One'. As General Secretary Xi Jinping said, comprehensively deepening reform involves complicated system engineering, and cannot be completed only by relying on one or a few departments; it is necessary to establish a higher-level leadership system in order to give better play to the core leadership role of the Party, and to ensure that reform is implemented smoothly and universally.⁶⁴ Only by such an arrangement can the *Decision* of the plenary session be implemented article by article from within the organization.

The *Decision* also ruled that party committees at all levels should take responsibility for reform at the leadership level. Since the Party Central Committee established a leading group for comprehensively deepening reform, local party committees at all levels established similar group to promote 'Five in One' reform. It can be claimed that China's great reform innovation sprang from local, intermediate and grass-roots innovation. It required that the Party Central Committee acknowledged, supported and protected local innovation. System innovation brings high risk and cost, and may not be unsuccessful, but it is integral to the future of the nation.

As well as setting out the guidelines for the 'Five in One', the plenary session called for checking and evaluation. Now, the score obtained from the evaluation of the *Decision* made 10 years ago is 89.7 points, and it is likely to exceed 90 points in another ten years.

2.5 Summary: Raising Confidence in the System and Comprehensively Deepening Reform

China's reform and modernization has moved from quantitative to partial qualitative change, and then to quantitative and partial qualitative change. The partial qualitative change eventually became qualitative change, perfecting and strengthening the socialist system through comprehensively deepening reform.

⁶³Xi Jinping: *Explanation of the Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

⁶⁴Xi Jinping: *Explanation of the Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

To conduct Reform and Opening and realize modernization in China, there was no ready-made model or past experience. Understanding socialist modernization in China is a process of noting the social practices over a long period of time, and assessing⁶⁵ its continuing success.

The process of drafting and formulating the *Decision* of the Third Plenary Session of the 18th Central Committee of the C.P.C. led to an understanding of the overall situation and law of socialist modernization in China. It was the development of a strategy for comprehensively deepening reform, and of concentrating the democratic and scientific decision-making of the Party and the country as a whole.

Xi Jinping's *Instructions* publicly introduced the process of drafting and formulating the *Decision* of the Third Plenary Session for the first time.⁶⁶ The process included the following important links and stages: soliciting opinions from all sides; carrying out special demonstrations; conducting investigations, including investigations of the Standing Committee of the Political Bureau of the Central Committee of the C.P.C. and committee members; drawing up first draft of the *Decision*; circulating the draft within the Party (within limits); listening to the opinions of the democratic parties; repeated discussion and modification; deliberation under the Political Bureau of the Central Committee of the C.P.C.; and deliberation under the plenary session of the Central Committee.

Starting from the establishment of the drafting group, the *Decision* took seven months to complete, but if the time of drafting the report to the 18th C.P.C. National Congress since the Sixth Plenary Session of the 17th Central Committee of the C.P.C. is included (because the report is a detailed outline of the *Decision*) the actual time period was two years. Although the *Decision* was only twenty thousand words long, **it contained the desires, opinions, advice and wisdom of the Party and the people.** It can be viewed as **a successful case of decision-making with Chinese characteristics.**

To accommodate its billion-strong populace, China has more than 30 provincial levels, more than 330 prefecture levels, and more than 2800 county levels, with vast differences in development and socio-economic conditions. It is the country with the largest such gaps between regions in the world. To solve this difficult issue, China must work on decision-making, and form new political views, consensus,

⁶⁵In Mao Zedong's address to the Expanded Working Conference of the C.P.C. Central Committee, after recalling China's arduous journey to revolution, he emphasized: 'When I talk about the Communist Party members' success in understanding the law of China's revolution in spite of difficulties during the democratic revolution period, my purpose is to guide comrades to an understanding: the understanding of the law of socialist construction must go through a process. We must start from practice, from no experience to experience, from little experience to rich experience, from the unrecognized realm of the necessity of building socialism to the realm of freedom through gaining freedom, and realize a leap in understanding by overcoming blindness and understanding objective laws'. *Mao Zedong's Collected Works*, Volume 8, People's Publishing House, 1999, P. 300.

⁶⁶Xi Jinping: *Explanation of the Decision of the C.P.C. on Some Major Issues Concerning Comprehensively Deepening Reform*, Xinhua News Agency, Beijing, November 15, 2013.

and action plans for further deepening reform. Xi Jinping's *Instructions* on the process of drafting the *Decision* of the Third Plenary Session **provide a more detailed answer, along with suggestions on how China's major decision-making mechanism and process can be democratized, institutionalized, and made scientific.** It is not the first time, in fact. The Resolution on *Several Historical Issues of the Party Since the Founding* adopted in the Sixth Plenary Session of the 11th Central Committee of the C.P.C. (1981) pioneered the democratization, institutionalization, and making scientific of the major *Decision* of the Party Central Committee, but there was no official drafting process. Xi Jinping's *Instructions at the Central Plenary Session* were groundbreaking, laying bare the mystery of the central decision-making process, and showing great political transparency.

The Institute of National Conditions at Tsinghua University's think-tank is actively involved in this, and provides many National Condition Reports related to the topic of the *Decision* as well as monographs for relevant authorities at different stages of decision-making. It deals with related central departments as well as grassroots units. I, as a representative of the 18th C.P.C. National Congress, have participated in meetings to solicit opinions on the *Decision*, and have written about my findings. It seems clear that **China is achieving democratization, institutionalization, and scientific viewing of the major decision of the Party Central Committee, enabling it to make an important decision on how to remain popular, reaching a political consensus in the Party and the wider nation, and pushing for deeper reform.**

In contrast, the U.S.A.'s recent Obamacare reform has not been so successful. As early as October 2007, Barack Obama proposed a reform of the healthcare system as part of his national campaign, helping secure his election as President. The corresponding bill was adopted in March 2010, two years after the election. It has not been without its difficulties. The healthcare bill was obtained as a result of political compromise; the Republican Party firmly opposes it, so major concessions have been made, compromising the original idea of realizing universal healthcare.

A political consensus has not yet been reached. After the bill was adopted, it received litigation from 26 states for violating of the Constitution, meaning that it will not be implemented in over half of country. The Supreme Court finally ruled that the bill was constitutional in June 2012, but the House of Representatives voted to abolish it in July 2012.

Neither has there been social consensus. The United States is a differentiated and divided society, and the reform would stand to benefit the impoverished echelons of the population. If more than 30 million uninsured American people were provided with medical insurance, the burden would be lifted from more than three million citizens. However, this has been opposed by the majority. A survey shows that more than 50% of the public are dissatisfied with the healthcare reform bill, with employers and the rich expressing the strongest dissatisfaction. As long as Obamacare fails to receive widespread support, Barack Obama's policy will not come into fruition. This suggests that **any major reform in the United States will**

fail if it does not stand to benefit the entire populace. A research fellow from the Brookings Institution in the United States claims that **President Obama wants reform, but the system of the United States does not provide any help. Conversely, when President Hu Jintao wants reform, China's system always steps up to the plate.** It is surely not lost on Barack Obama that China's reformed healthcare system was able to cover a population of 1 billion in 2009.

In this way, comparing the systems and methods of reform in the United States of America and China can offer valuable lessons in how best to innovate and implement policies for the good of each nation, under current conditions.

The Modernization of China's State Governance

Hu, A.; Tang, X.; Yang, Z.; Yan, Y.

2017, X, 190 p. 9 illus. in color., Hardcover

ISBN: 978-981-10-3369-8