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# CHINA WATCH

**The New Development Stage Is High-Quality**

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# **The New Development Stage Is High-Quality**

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General Secretary Xi Jinping has pointed out that after building a moderately prosperous society in all respects (i.e., achieving the first centenary goal), we must take advantage of the momentum to embark on a new journey of making China into a modern socialist country in all respects (i.e., achieve the second centenary goal). This marks our country's entry into a new stage of development. Entering this new stage of development demonstrates the historical logic by which China has made a historic leap from standing up to getting rich and finally to becoming strong, and it now has the solid material foundation for achieving new higher goals. To fulfill the new strategic goals of the new development stage and to put in practice new concepts on development, a theoretical logic must be followed, while building a new development pattern is an inevitable choice determined by a realistic logic. At this stage, from the requirements of economic development, it is necessary to reach the highest level of the primary stage of socialism, for which high-quality development must be achieved.

## **1. The New Development Stage Requires High-quality Development**

From initial-stage socialism to relatively developed socialism and then communism, each corresponds to different levels of economic and social development. Through the periods of socialist construction and opening up since the founding of the new China, brilliant achievements have been made through China's economic and social development. Especially since the 18th National Congress of the CPC (2012), China has coordinated the promotion of the "Five-sphere Integrated Plan" and the "Four-pronged Comprehensive Strategy,"<sup>1</sup> China's economic, technological, and

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<sup>1</sup> *Translator's note:* The "Five-sphere Integrated Plan" (*wuwei yiti* 五位一体) refers to China's overall plan to promote coordinated progress in the economic, political, cultural, social and eco-environmental fields. The "Four-pronged Comprehensive Strategy" (*sige quanmian* 四个全面) includes

comprehensive national strength and its people's living standards have all leapt to new levels, thus laying a solid material foundation for the cause of socialism with Chinese characteristics to enter a higher stage.

In 2020, China's gross domestic product (GDP) will exceed 100 trillion yuan, accounting for 17.5% of the world economy—11 times that of 1978. Meanwhile, the world share of the US economy has fallen from 27.4% in 1978 to 24.6% in 2020. As for per capita GDP, China's reached US\$10,262 in 2019, which is equivalent to 22.7% of the average level of high-income countries. If calculated in terms of purchasing power parity, however, China's per capita GDP has reached US\$16,830, which is equivalent to 32.3% of the average level of high-income countries. China's most iconic and full-fledged achievement is that, under the current standard, all of the rural poor have escaped poverty. The current standard, a per capita income of 4,000 yuan in 2020, is equivalent to US\$2.30 per person per day in terms of purchasing power parity. Therefore, the complete escape from poverty means that the incidence of poverty, calculated according to this standard, has reached zero. Among the 132 countries for which the World Bank has data, the number of countries in recent years with zero poverty incidence according to the standard of US\$1.90 per person per day is only in the single digits. The poverty incidence calculated by this standard is 0.6% in high-income countries, 1.5% in upper-middle-income countries, 16.9% in lower-middle-income countries, and 45.5% in low-income countries.

If we take this level of development as a starting point, we will inevitably be entering the new stage of development from a higher level. On this kind of solid, material basis, we will inevitably have higher goals and requirements for the new development stage, and we will have to face and respond to new challenges and new opportunities. We will thus inevitably require a course of high-quality development. The Fifth Plenary Session of the 19th Central Committee of the CPC (October 2020), adopting a mainly qualitative, implicitly quantitative approach, established an expected economic development goal marked by per capita GDP, that is, to reach the current

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comprehensively building a moderately prosperous society, deepening reform, governing the nation according to law, and strictly governing the Party.

high-income national standards by the end of the 14th Five-year Plan period (2025), and to reach the level of a moderately developed country by 2035. To achieve the tasks of the new development stage, to lay the necessary material foundation for the stage of the socialist cause, and to make the quantitative accumulation needed for the development stage's "qualitative leap" in economic development level, it will be essential to achieve these two expected goals.

Considering China's development potential, achieving these two goals is entirely possible, but will also require a great effort. First of all, the basic requirement for achieving the goals will be to double total GDP and the per capita level between 2020 and 2035, i.e., maintain an average annual GDP growth of 4.73%. Since it appears that the population growth rate during the 15-year interval will be roughly zero, the growth rate requirements for total GDP and the per capita level will be the same. Based on the median forecast of the potential growth rate, GDP in the next 15 years can achieve an average annual growth rate of 4.85%, thereby achieving the goal of doubling, and the per capita GDP level can reach US\$13,852 in 2025 and US\$21,731 in 2035. Secondly, achieving the two goals will require the promotion of reforms in key areas, and using reform dividends to increase the potential growth rates. Based on high forecasts, if the supply-side and economic system reforms do improve the supply and allocation of factors, then the potential growth rate may be expected to increase to 4.99%, and per capita GDP will reach US\$14,129 and US\$22,999 in 2025 and 2035, respectively. Finally, we should take into account the factor of renminbi (RMB) appreciation. That is, based on the rule that the difference between GDP calculated by exchange rate and GDP calculated by purchasing power parity becomes smaller, China will rank higher in the world economy and among high-income countries by 2035.

## **2. New Development Concepts Define High-quality Development**

General Secretary Xi Jinping has pointed out that development is a constantly changing process—its environmental conditions will never be static, so naturally the concepts about it will never be static. One of the most important changes in China's conditions is that economic development has entered a new normal, so that traditional

development models are no longer adequate for providing sufficient growth momentum. After the working-age population entered negative growth in 2012, labor shortages, slower improvements in human capital, declining returns on capital, and shrinking space for labor transfer have all led to a decline in potential growth rates. On the one hand, the aging of the population is irreversible, so this traditional dynamic cannot be regained. It is necessary to switch to a new dynamic and rely on total factor productivity to stabilize and increase the potential growth rate. At the same time, at development's higher stages, its goals and means, fairness, and efficiency should be more organically unified in order to make it more people-centered, realizing a common prosperity. This will require a new concept of development that defines what high-quality development is.

The new concept of development involves innovation, coordination, greenness, openness, and sharing. Of all the theories and concepts to emerge from the Party Central Committee since the 18th National Congress of the CPC, this is the main, most important one. It is a systematic, theoretical system that answers the questions about the purpose, dynamic, method, and path of development. The Fifth Plenary Session of the 19th Central Committee of the CPC put forward new tasks and new requirements for the implementation of this new development concept for the new development stage. To understand those tasks and requirements, we should focus on the Chinese characteristics of China's socialist modernization. China's modernization is the kind that will cover its huge population, realize the common prosperity of all of the people and coordinated material and spiritual civilization, bring people into a harmonious coexistence with nature, and follow the path of peaceful development. To integrate the goal-oriented and problem-oriented nature of the tasks and requirements, greater attention should be paid to the following aspects of the implementation of the new development concept:

First of all, adhering to the people-centered development concept and realizing common prosperity for all people. Since the 18th National Congress of the CPC, the gaps in regional development and incomes have narrowed. However, the gaps still exist and remain at relatively high levels. For example, China's Gini coefficient was 0.465

in 2019. Based on general patterns, if it is no longer possible for initial distribution to bring the Gini coefficient below the internationally recognized warning line of 0.4, it is necessary to promote further reform of the income distribution system, increase the intensity of redistribution policies, increase the level of equality in the supply of basic public services, and use taxation, social security, transfer payments, and other means to reasonably adjust incomes.

Secondly, creating new development momentum or forming a new combination of production functions will require both technological innovation and further reforms. The sustainable driving force for high-quality development is total factor productivity, but in the current stage of economic development, it so happens that the emergence of new situations has hindered productivity growth. First, due to change in the relative advantages of factors, some market players that have lost competitiveness and underperform in terms of productivity seek protection from local governments as well as industrial policy subsidies in order to avoid exiting the market. This has resulted in rigid resource allocation and an overall reduction of China's economic productivity. Second, the loss of the comparative advantage of labor-intensive industries has led to declines both in the degree of dependence on trade in goods and in the proportion of the manufacturing sector, as well as an excessive shift of labor from secondary to tertiary industry. Since the overall productivity of tertiary industry is lower than that of secondary industry, this causes a shift in resource allocation against the direction of productivity improvement. Therefore, it is necessary to create an environment of "creative destruction" through reforms—removing institutional barriers to the movement of production factors, expanding dynamic comparative advantages, and effectively increasing total factor productivity.

Third, the implementation of the Paris Agreement on climate change and the "carbon emissions peak and carbon neutrality objectives" will require the accelerated formation of green development methods and lifestyles. Since 2020, General Secretary Xi Jinping has repeatedly mentioned in international occasions that China will strive to reach peak carbon in 2030 and carbon neutrality by 2060. This is a task that requires herculean effort. Former Bank of England Governor Mark Carney once pointed out that

the implementation of the Paris Agreement means that one-fifth to one-third of the world's proven reserves of oil, natural gas, and coal will no longer be used. Clearly, to achieve the peak carbon and carbon neutrality objectives, China must carry out its own revolution in its growth models, production methods, and lifestyles under the guidance of the new concepts of development.

### **3. New Development Patterns Determine High-quality Development**

Putting into practice the new development concepts and realizing the new goals necessitates the establishment of new development patterns, in which the large domestic cycle is the principle part and the two domestic and international cycles propel each other. After the 2008-2009 international financial crisis, the world economy has been in a state of “long-term stagnation” characterized by low inflation, low long-term interest rates, and low economic growth rates, while economic globalization has encountered headwinds. The coronavirus pandemic, as well as factors such as supply chain decoupling and technological restraints, will further exacerbate this trend. Therefore, sticking to the international cycle and over-relying on external demand will not be able to guarantee China's healthy and sustainable economic growth. Meanwhile, China's own economic development has undergone a phase change, which poses severe challenges to maintaining economic growth from the supply and demand sides.

A virtuous economic cycle requires coordination of the supply and demand sides to ensure the realization of economic growth goals through mechanisms and processes. During the demographic dividend period, China's labor and human capital supply, capital return rate, and resource allocation efficiency constituted high supply-side growth capacity. At the same time, personal income, business investment, infrastructure building, and the opportunities for active participation in the division of labor in the world economy provided by the previous round of economic globalization all formed high demand-side support capacity. It was precisely the combination of the two that guaranteed rapid economic growth. Since then, given the changes in the world economic structure, the international situation, and China's development stage, growth capacity on both the supply and demand sides is facing challenges. In particular, as the

aging of the population accelerates, economic growth will inevitably confront and have to deal with two demographic “turning points.”

The first demographic turning point occurred in 2012, when the working age (15-59) population in China reached its peak and began to enter negative growth; the population dependency ratio has continued to increase since then. The arrival of this turning point changed the combination of production functions in terms of the quantity and quality of labor, the rate of return on capital, and the efficiency of resource reallocation, which weakened the potential growth rate and produced a supply-side shock to China’s economy. The actual GDP growth rate decreased from 9.3% in 2011 to 6.1% in 2019. However, there was no demand shock during this period, so the actual growth rate was consistent with the potential growth rate.

The second demographic turning point, expected to occur between 2025 and 2030, will be marked by China’s total population reaching its peak and then entering negative growth. This turning point will certainly continue to have the effect of reducing the potential growth rate of the supply side, but a more specific effect will be to reduce the effective aggregate demand in terms of investment willingness, consumption power, and consumption propensity. This will produce a demand-side shock to China’s economy. Aging suppresses consumer demand through three effects. One is the total population effect. Since population is equal to consumers, slowing or negative population growth will inevitably reduce or even curb consumption growth. The second is the age structure effect. The elderly population has lower spending capacity and consumption propensity, while aging also increases laborers’ propensity to save. The third is the income distribution effect, which stems from the differences between the people at the two poles of income distribution in terms of consumption propensity and consumption capacity. For example, low-income households have high consumption propensity but insufficient consumption capacity, while high-income households have high consumption capacity but low consumption propensity. Thus, a large income gap can suppress consumption.

The objectives and requirements for promoting the construction of new development patterns consist of achieving innovative development with a high level of



self-reliance, promoting the adaptability of supply capacity and effective demand, balancing the three major demand factors, promoting the relationship between the large domestic cycle and high-level opening to the outside world, and ultimately forming a higher-level dynamic equilibrium between supply and demand. Therefore, a balanced and simultaneous approach should be taken on the two aspects of supply-side structural reform and demand-side management. From the supply side, through reform and innovation, a new combination of production functions will be formed to increase the total factor productivity-driven potential growth rate and to use improved efficiency and quality to maintain the growth rate within a reasonable range. From the demand side, by increasing the income of residents, reforming the income distribution system, and increasing the supply of basic public services, the middle-income group will be continuously expanded and effective demand will be increased in order to achieve potential growth rates.

Translated by Thomas E. Smith