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CHINA: Leadership Changes and Seventh Five-Year Plan

CHINE: Changements à la tête et le septième plan
quinquennal

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CHINE: Changements à la tête et le septième plan
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Résumé

Les décisions prises par le Comité central du parti communiste à une série de réunions de haut niveau, tenues à la fin de septembre devraient placer plus solidement la Chine sur la voie de la réforme économique au moins jusqu'à la fin de la décennie. À deux plénums du parti, Deng Xiaoping et ses protégés ont réussi à remplacer la plupart des membres agés et de droite du parti par des technocrates plus jeunes et plus soucieux de réformes. À la Conférence nationale extraordinaire du parti, on a recommandé de procéder à une nouvelle décentralisation du contrôle économique et de laisser les forces du marché jouer un rôle plus grand dans l'orientation de l'économie dans les propositions visant le septième plan quinquennal (1986-1990). Les propositions sont aussi favorables à la poursuite du rôle joué par les investissements, la technologie et les biens étrangers dans la promotion de la modernisation de l'économie. Cela augure bien des exportations du Canada à destination de la Chine, particulièrement en ce qui concerne le matériel de transport et de communications et l'équipement lié à l'exploitation de l'énergie, quoique les perspectives sont moins encourageantes pour les exportations de blé et de produits de consommation. Nul doute que la Chine continuera d'exhorter le Canada à réduire son excédent commercial. Le coup de pouce donné aux réformes économiques n'éliminera, toutefois, pas les problèmes qui ont accompagné la modernisation de l'économie et les autorités auront probablement du mal à atteindre l'objectif qu'ils se sont donnés de freiner et de stabiliser la croissance rapide de l'économie.

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CHINA: Leadership Changes and Seventh Five-Year Plan

Summary

1. The decisions of the Communist Party's Central Committee at a series of high-level meetings in late September should set China more firmly on the path of economic reform at least until the end of the decade. At two party Plenums, Deng Xiaoping and his protégés succeeded in replacing most of the older, conservative party members with younger more reform-minded technocrats. At the extraordinary National Party Conference, further decentralization of economic control and a greater role for market forces in directing the economy were recommended in the proposals for the seventh Five-Year Plan (1986-90). The proposals also supported a continued role for foreign investment, goods and technology in promoting economic modernization. This should bode well for Canada's exports to China, particularly in transportation, communications and energy-related equipment, although prospects are less bright for exports of wheat and consumer goods. China no doubt will continue to press Canada to reduce our trade surplus. Increased support for economic reforms will not, however, eliminate the problems that have accompanied economic modernization and the authorities are likely to find it difficult to attain the goal of moderating and stabilizing current rapid economic growth. (CONFIDENTIAL)

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LEADERSHIP CHANGES

2. At two party Plenums in late September, Deng Xiaoping succeeded in nudging out most of the older, conservative elements within the party hierarchy and replacing them with younger, reform-oriented technocrats who can be expected to carry out his economic reform program with enthusiasm. Notable among the third generation appointees of Deng are Hu Qili, who was elected to the Politburo and is a present member of the party's Secretariat and heir apparent to General Secretary Hu Yaobang, and Vice-Premiers Li Peng and Tian Jiyun who were elected to both the Secretariat and Politburo.

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3. The military's representation on the Central Committee decreased significantly from 22 to 16 per cent and seven of the ten departures from the Politburo were from the military whose replacements were civilians. Also, Marshal Ye Jianying, long a symbol of conservative ideological opposition within the People's Liberation Army (PLA), resigned from the Politburo's Standing Committee. The aged military leadership's loss of power removes from the political power centre a block of ideological opposition to reform. It also facilitates the ambitious program of modernization and professionalization now underway in the PLA. A group of younger pro-Deng senior officers were introduced into the Central Committee and could provide the core of China's future military leadership.

(CONFIDENTIAL)

4. Despite the obvious reach of Deng's influence and the skill and patience of his political manoeuvring, the orderly replacement was not carried out without compromise on Deng's part. Several leading reform critics remained, including Hu Qiamu and Deng Liqun in the Politburo and Secretariat respectively, as well as Huo Guofeng, Mao's chosen successor, on the Central Committee. Speeches by Deng Xiaoping and Hu Yaobang were moderate in tone, acknowledging negative aspects of too rapid a movement

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toward reform, and a speech by Chen Yun, a leading conservative critic, warned of the corrupting influences that accompany the large-scale importation of Western goods and technology. Deng's gradual approach of seeking consensus on policy changes should promote the longer term stability of his reforms and encourage the emergence of a collective leadership after his death. (CONFIDENTIAL)

5. The longer Deng Xiaoping lives, the better the chances that third generation protégés, such as Hu Qili, will establish themselves firmly in power and remaining conservative opposition in the party's central organs will be replaced with Deng's reformers. This, of course, would ensure that Deng's political, social, economic and military reforms will be institutionalized. (CONFIDENTIAL)

Seventh Five-Year Plan

6. The party's National Conference in late September approved proposals for formulating China's seventh Five-Year Plan which is directed at implementing the economic reforms that Deng Xiaoping and his protégés introduced at the party Plenum in October 1984. Recommendations for continuing to restructure the economy include: further reducing State control of enterprises, allowing market forces to play a larger role in setting prices, delegating more power to lower level managers and improving the fiscal, banking and labour and wage systems. These proposals will form the basis of the actual Five-Year Plan that will be officially approved next spring. (CONFIDENTIAL)

7. The major targets for domestic development reflect the authorities' desire to moderate and stabilize current rapid economic growth as well as their goal to improve the population's standard of living. While the gross value of industrial and agricultural product is expected to double by 1990 from 1980 values, the proposed annual increase in real terms of seven per cent is only one-half of last year's official 14 per cent growth. Urban and rural workers' average per capita consumption is projected to increase by a relatively modest four to five per cent

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annually compared to last year's 10.1 per cent growth, and reach close to US \$130 by 1990. These slower growth rates could help to alleviate the current strain on the country's infrastructure and bring about better sectoral balance. Nonetheless, since the Chinese are relatively inexperienced in economic management, they may have difficulty in controlling an overheated economy, at least over the next several years. (CONFIDENTIAL)

8. In order to meet these targets, the proposals set out a number of priorities for domestic development. With the majority of the labour force still in agriculture and agriculturally-related employment, improved agricultural productivity will be a major factor in increasing the population's standard of living. Consequently, greater emphasis is placed on increasing specialization and modernization in agricultural production. Priority is also placed on infrastructural development in order to bring about better sectoral balance and to help alleviate energy and transportation bottlenecks. The increase in the population's standard of living will be accompanied by continuing strong consumer demand and, consequently, another key area for development will be the consumer goods industry. An improvement in welfare provisions for the Chinese people was also indicated. (CONFIDENTIAL)

9. In a concession to Deng's more conservative opponents, the proposals emphasize that greater care must be taken to carry out these development plans within the socialist framework. The stated goal of economic reform is to build a "socialist economic structure with Chinese characteristics". Modernizing the economy without violating socialist principles will be difficult, however, and further periods of socialist retrenchment are likely to alternate with periods of greater liberalization. What conservative critics consider "unhealthy tendencies", such as selfishness, materialism and corruption, are expected to continue to arise from policies promoting greater competition and further decentralization. (CONFIDENTIAL)

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10. In the area of foreign economic relations, the proposals stress that under the seventh Five-Year Plan, China will continue its policy of utilizing in its modernization drive foreign investment, goods and technology. In light of the recent sharp deficit in the first half of 1985, priority is placed on increasing export earnings.
(CONFIDENTIAL)

11. As a result, China is likely to put more pressure on Canada to reduce our trade surplus which stood at Cdn \$938 million last year. Canada's export prospects in telecommunications, transportation and energy-related equipment should still remain favourable, however, because of the priority China places on advanced technology imports for infrastructural development. Prospects for expanding Canadian wheat sales to China over the next five years are less promising, however, because of the proposed expansion of China's domestic grain production and recent record grain harvests.
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