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India and China's 12th Five Year Plans: A Comparison of Changing Priorities

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Abstract

China's 12th Five-Year Plan (FYP) was released in March 2011. The 12th FYP sets direction for national development for the 2011-15 period aiming to restructure the economy by encouraging domestic consumption. The Planning Commission of India, too, released 'An Approach to the Twelfth Five Year Plan (2012-2017),' a paper that sets the tone for the 12th FYP paper next year. India's approach paper calls for 'faster, sustainable and more inclusive growth'. The two documents set out the key indicators of directions and changes in the development philosophy of governments in both China and India. While there are similarities in objectives, the proposed strategies appear to be quite different. This paper attempts to compare and contrast the similarities and differences in the planning process of the two Asian giants based on the text of the FYPs of both China and India.

The economic march of both India and China since early 1990s and 80s respectively has been the subject of much research and analysis. Both the countries began their industralisation process from low-starting points having lagged behind bigger global economies for decades. To begin with, both the countries had similar economic structures with a large public sector and heavy dependence on agriculture before each country underwent a phase of economic reforms. These economic reforms have been supported and directed by the Five Year Plans (FYPs) in each country. FYPs have served as blueprints of national strategy that provide

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goals and set targets for economic and social development in both India and China.[2] The mapping out of policy frameworks over five-year cycles has played a crucial role in shaping each country's progress and charting the course towards higher growth.

In March 2011, China's National People's Congress (NPC) approved the 12th FYP. Later, in August 2011, India's Planning Commission developed an Approach paper for charting India's 12th FYP due in 2012.[3] China's 11th FYP (2006-2010) was viewed as a major milestone in China's policy framework as the country moved away from a focus on growth at any cost to a more balanced and sustainable course of growth. In China's 12th FYP, the focus has shifted from 'speed of growth to quality of growth' as well as from enumerating concrete production targets to ascertaining broader principles.[4]

The 12th FYP approach paper for India has deployed several macro-economic techniques to examine the feasibility of targets in terms of internal consistencies and inter-sectoral balances. In a first, the Planning Commission is also weighing the chances of deploying scenario mapping technique for inculcate flexibility in 12th FYP to adjust unexpected events especially exogenous factors such as inflation, land and environment issues that would affect projects. The strategy may also include intangibles such as public and market sentiments, political will and governance issues among others.[5]

In the approach paper for the 12th FYP of India, the Planning Commission has set two alternative target scenarios for economic growth for the country. The first target of nine per cent growth is a repetition of the previous FYP, which is yet to be achieved. The second target however is a higher one at 9.5 per cent average growth.

The sectoral growth rates indicated in Table 1 are consistent with the nine per cent and 9.5 per cent alternatives. The nine per cent target requires a significant acceleration in growth in agriculture, electricity, gas, water supply and also manufacturing. Agricultural growth has always been an important component for inclusiveness in India, and recent experience suggests that high GDP growth in the secondary and tertiary sectors without a matching contribution from the agriculture sector may lead to distortions in income generation process.

2 The comparison of the two FYPs is more to understand the changing strategies for growth by the two countries by comparing the objectives stated in China's 12th FYP and India's Approach paper for 12th FYP. Since India is yet to finalise its 12th FYP document and it is still in the Approach paper stage, a target by target comparative analysis would not be accurate. Hence only the key objectives have been taken into consideration for a broad brush comparison. Any reference to the 12th FYP of India refers to the Approach paper.

3 All references to China's 12th Five Year Plan (FYP) and India's Approach Paper to its 12th FYP in this paper are from 'China's Twelfth Five Year Plan (2011-2015) - the Full English Version,' in http://cbi.typepad.com/china_direct/2011/05/chinas-twelfth-five-new-plan-the-full-english-version.html and http://planningcommission.gov.in/plans/planrel/12appdrft/appraoch_12plan.pdf respectively. Accessed on 01 November 2011.

4 John Wong and Lye Liang Fook, 'China's National People's Congress endorses the 12th Five-Year Plan: Laying a stronger foundation for socio-economic progress,' EAI Background Brief No. 608.

5 Devika Banerji, 'New Strategy for 12th five year plan to include intangibles and uncertainties,' *The Economic Times*, 11 November 2011. Accessed on 15 November 2011.

Table 1: Sectoral Growth Rates - Previous Plans and Target for 12th Plan of India

	11th Plan	12th Plan	
		9 % target	9.5% target
Agriculture, forestry & fishing	3.2*	4.0	4.2
Mining & quarrying	4.7	8.0	8.5
Manufacturing	7.7	9.8	11.5
Elect. gas & water supply	6.4	8.5	9.0
Construction	7.8	10.0	11.0
Trade, hotels etc. + Transport, communication, storage	9.9	11.0	11.2
Financing, insurance, real estate & business services	10.7	10.0	10.5
Community, social & personal services	9.4	8.0	8.0
Total GDP	8.2	9.0	9.5
Industry	7.4	9.6	10.9
Services	10.0	10.0	10.0

Such growth is likely to come from productivity increase and improved technology (which the 12th FYP Approach Paper recommends) rather than increased labour intensity of production. Thus, the main onus for providing additional jobs to the growing labour force will rest on manufacturing and construction and on the services sectors. The target set for the mining sector, mainly reflecting additional production of coal and natural gas, is also very demanding, but is necessary to meet the primary energy requirements without resorting to excessive imports. Taking the growth rate to 9.5 per cent would require much faster growth in the manufacturing, as well as in electricity, gas and water supply sectors. The feasibility of achieving such large acceleration in key sectoral performance needs to be considered carefully before the growth targets for the 12th FYP are fixed. This is particularly true for the energy sector where supply constraints could be severe.

This paper identifies and contrasts the key similarities, differences and unique features of the 12th FYPs of India and China and tries to highlight the challenges associated with the goals stated in the two plans.

Similarities in Objectives

In terms of economic targets which are key elements of the FYPs, China has recognised that double-digit growth may be challenged by external factors and has thus maintained a conservative GDP target of seven per cent even as some industry reports suggest an eight per cent growth. China's 11th FYP too had a conservative target of 7.5 per cent even though the actual growth was around 11 per cent.[6] India, on the other hand, aims to grow at nine per cent annually on average and also has an alternate scenario of 9.5 per cent growth.

The economic performance of China has been supported by its strong 'demographic dividend' of a large workforce. In just 15 years (from 1995 to 2010) China was able to leverage its 'demographic dividend' to build the world's second-largest economy after the U.S.[7] India's demographic window is just opening and the country needs to capitalise on the opportunity.

Both countries are producing more employable graduates each year. Perhaps with this in mind, both the countries have envisioned job creation as an important objective for the future of both the countries. China targets more than 45 million jobs in the urban areas with the urban registered unemployment to be limited to no higher than five per cent. India's focus, however, is on the manufacturing sector, an area India has been aiming to grow further and transform it into a globally competitive sector. With this in mind, India's FYP paper has envisioned a target of creating 100 million additional jobs in the manufacturing sector by 2025 in order to considerably absorb the 250 million additional income seekers. This target is also in line with India's skill policy vision.

Inflation has been an issue both countries are grappling with. China's plan does not set a target but hopes to keep prices stable whereas India hopes to bring down its WPI inflation rate to 4.5 to 5 per cent.

The rate of urbanisation in both India and China has accelerated faster than they can cope with. The urbanisation phenomenon has drawn significant attention in both countries and both FYPs acknowledge the challenges of it. These challenges have also been acknowledged in earlier plans without a significant change in strategy. For instance, the approach paper notes that India's urban population is estimated to increase from 400 million in 2011 to about 600 million or more by 2030. China's urbanisation rate on the other hand is expected to reach 51.5 per cent up four percentage points from the previous plan.

In the field of innovation, both the plans recognise the pressing need to promote innovation in order to achieve greater competitiveness in the global economic space. The Chinese plan has put the total expenditure on research and development to account for 2.2 per cent of GDP. The Indian plan while does not define innovation in numbers and data, it spells out the aim to expand Research and Development (R&D) as well as other innovations especially in the focus area of Indian manufacturing.

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6 KPMG, 'China's 12th Five-year Plan: Overview,' http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Publicationseries/5-years-plan/Documents/China-12th-Five-Year-Plan-Overview-201104.pdf. Accessed on 11 November 2011.

7 Lakshman Krishnamurthi and Sugandha Khandelwal, 'Why India's Demographic Dividend Will Lag China's,' The Wall Street JournaI, 08 April 2011, http://blogs.wsj.com/indiarealtime/2011/04/08/india-journal-why-indias-demographic-dividend-will-lag-chinas/. Accessed on 14 November 2011.

Both Indian and Chinese economies have grown from agrarian roots, even though the contribution of agriculture in the GDP has declined over the years. Agriculture continues to be an important sector for both India and China. China sets a target of annual grain production capacity to be no less than 540 million tons. Indian plan sets a target of four per cent average growth in agriculture. The estimate of foodgrains has been put at about two per cent per year and non-food grains (notably horticulture, livestock, dairying, poultry and fisheries) growing at five to six per cent.

Differences and New Priorities

India's 12th FYP in a sense demonstrates that expenditure in the development sector may have to now come from the private sector more than the public sector. The plan has only a small incremental growth of social spending by the government. There needs to be a significant shift in the economic strategy of India with a greater reliance on private sector for the social sector.[8]

This is in stark contrast to China's plan which bases itself on building a stronger foundation for socio-economic progress while India looks at faster and sustainable growth without spelling out the government expenditure commitments to the social sector.

While the plans of both countries have similar priorities which were discussed in the previous section, there are major differences in approaches to key areas that challenge developing economies. The most important area in this regard is the issue of climate change, environment and clean energy. The 2011 CO2 Emissions from Fuel Combustion Report by International Energy Agency (IEA) puts India and China among the largest emitters.[9] This may seem a no brainer as the positive correlation between higher development and higher consumption of energy is well established. As both the countries continue to grow at above seven per cent rates, the energy consumption is likely to remain high. Further, being non-signatories of the Kyoto Protocol under the United Nations Framework Convention on Climate Change (UNFCCC), the two countries have often been scrutinised for any practices that may risk the climate balance, China's 12th plan has come a long way from its 6th FYP which for the first time moved away from mere energy production and consumption targets to improving energy efficiency.[10] With this in mind, the Chinese FYP sets out clearly defined targets for dealing with the issues of environment and clean energy. The Chinese FYP has capped the non-fossil fuel to account for 11.4 per cent of primary energy consumption.

[8] Approach Paper to the 12th FYP, Planning Commission Of India, http://planningcommission.gov.in/plans/planrel/12appdrft/appraoch_12plan.pdf.

[9] International Energy Agency, 'CO2 Emissions from Fuel Combustion Report,' 2011 Edition available at: http://www.iea.org/co2highlights/co2highlights.pdf.Accessed on 15 November 2011.

[10] Yuan, Xueliang & Zuo, Jian, 2011.'Transition to low carbon energy policies in China--from the Five-Year Plan perspective,' Energy Policy, Elsevier, vol. 39(6), pages 3855-3859, June. Accessed on 15 November 2011.

Further it intends to cut down water consumption per unit of value-added industrial output by 30 per cent. The overall energy consumption per unit of GDP is to be cut by 16 per cent. The carbon dioxide emission per unit of GDP is envisaged to be cut by 17 per cent. Attention has also been paid to increasing the forest cover and a target forest coverage rate of 21.66 per cent has been set with forest stock to be increased by 600 million cubic meters.[11]

India's plan in stark contrast does not define and recognise the challenges of climate change or lay out the objectives as clearly as the Chinese plan even though it does touch upon the need to managing the environment and dealing with climate change. India's targets in this respect include ones on the issue of water such as securing the ecology of watershed and catchments, Cumulative Environmental Impact Assessments (CEIAs) for vulnerable regions, carrying capacity studies in selected river-basins, maintaining acceptable water quality and quantity through pollution control of water resources, restoration of wet lands/lakes and management of waste water discharge from industrial and commercial establishments into major water bodies.

India also flags the issue of clean energy by setting the share of new and renewable energy could go up to 15 per cent by 2020. In terms of direct climate change targets, India plans to further its agenda through the National Action Plan for Climate Change and Expert Group on Low Carbon Strategies for Inclusive Growth Report.

The other key feature of the Chinese Plan is the targets of economic restructuring. China has set a target to achieve breakthrough in emerging strategic industries. Further it hopes to make the service sector value-added output to account for 47 per cent of GDP, up four percentage points.

Both the plans also recognise and try to address the growing income gap between rich and the poor. The Chinese FYP seeks to improve people's livelihoods, social infrastructure and safety nets. In this regard, spurring domestic consumption fits into China's structural adjustment plan for achieving more balanced growth. Improved livelihood targets find a significant place in the Chinese FYP. To this end, some significant goals set under the 12th FYP worth noting are:

- Population no larger than 1.39 billion
- Increasing the average life expectancy per person by one year,
- Pension schemes to cover all rural residents and 357 million urban residents
- Construction and renovation of 36 million apartments for low-income families
- Minimum wage standard to increase by no less than 13 per cent on average each year.

[11] 'China's Twelfth Five Year Plan (2011-2015) - the Full English Version,' in http://cbi.typepad.com/china_direct/2011/05/chinas-twelfth-five-new-plan-the-full-english-version.html and http://planningcommission.gov.in/plans/planrel/12appdrft/appraoch_12plan.pdf respectively. Accessed on 01 November 2011.

The goal of affordable housing ties into China's target of increasing domestic consumption as cheaper housing would increase the disposable income level for lower-income citizens and promote broader consumer spending.[12] Indian FYP doesn't have similarly defined objectives.

Political Systems, Governance and Reforms

By virtue of being the world's biggest democracy and the second most populous nation, India has realised the need to engage its citizens in the planning process. In preparing the approach paper for the 12th FYP, the Planning Commission consulted citizens, civil society, business associations as well as the media in the country. There is also an understanding that better governance is required for effective implementation and increased accountability of the plans in their entirety and especially the flagship programmes. That said, the approach plans identify the problems in implementation including the larger issues of rampant corruption.
On the Chinese side too while there is no mention of democratic and political reforms, there is an emphasis on improving governmental processes, observing the rule of law and curbing excesses in the exercise of power. The FYP has references such as 'make institutional changes to end excessive concentration of power and lack of check on power,' 'resolutely punish and prevent corruption,' 'establish a sound operational mechanism for decision-making' among others.[13]

Challenges Ahead

The global economic environment is not very stable and the energy prices will continue to soar. In this scenario setting ambitious growth targets may not seem the best deal for either country, and therefore China's more conservative GDP target vis-à-vis India's seems more achievable. Energy is the prime driver of economic growth. To deliver the GDP growth forecast over the next 20 years would require a quadrupling of energy capacity, according to the Indian government. The energy required to fuel infrastructure growth is daunting and is unlikely to be met and would require massive importation of coal and oil. That will raise input costs, leading to significant balance of trade deficits, and crimp GDP growth.

In case of China, looking inwards for growth i.e. domestic consumption is the key objective of the 12th FYP. There is a focus in the Chinese Plan on increasing domestic consumption and a move away from an export-led growth model alone. This is perhaps the main challenge for China to set in the transition from an export manufacturing-led economy to a domestic

12 Jamil Anderlini, 'Housing subsidies at heart of Beijing's 'new deal',' *Financial Times,* 31 May 2011. http://www.ft.com/intl/cms/s/0/92c6ff5e-8b9e-11e0-a725-00144feab49a.html. Accessed on 10 November 2011.
13 John Wong and Lye Liang Fook, 'China's National People's Congress endorses the 12th Five-Year Plan: Laying a stronger foundation for socio-economic progress,' EAI Background Brief No. 608.

consumption driven economy by establishing a macro-environment that encourages domestic spending.

The fact that both India and China need to weigh in their demographic dividends is a consideration for the success of the five year plans here on. China's population may age sooner than that of India as its demographic window is expected to close soon. The challenges for China are to move ahead in technology and productivity. While for India, the challenges would lie in skill formation and increasing employment opportunities, the success of any FYP ultimately lies in the ability of the government to implement it and deliver results despite issues of governance, corruption, problems of land and infrastructure among others. That said, goals need to be set and efforts need to be made to put both the countries on the track towards high income developing country and beyond.

Appendix 1: Similarities and differences in 12th FYPs of China and India

China- Stronger foundation for Socio-economic progress	**India - Faster, sustainable and more inclusive growth**
Economic targets : • GDP to grow by seven per cent annually on average • More than 45 million jobs to be created in urban areas • Urban registered unemployment to be kept no higher than five per cent • Prices to be kept generally stable.	Economic targets: • GDP to grow by nine per cent annually on average • Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2025. • CAD to an average below 2.5 per cent over the 12th Plan period • WPI Inflation Rate : 4.5 – 5.0 per cent.
Economic restructuring • Rise in domestic consumption (moving towards a consumption-led growth model) • Breakthrough in emerging strategic industries • Service sector value-added output to account for 47 per cent of GDP, up four percentage points • Urbanisation rate to reach 51.5 percent, up four percentage points.	Economic restructuring • Restoring fiscal discipline • Rate of fixed capital formation to be improved to around 33.5 per cent of GDP; For public sector 9.1 per cent of GDP. • the cumulative investment in infrastructure is targeted at around $1 trillion • India's urban population is expected to increase from 400 million in 2011 to about 600 million or more by 2030
Innovation • Expenditure on research and development to account for 2.2 per cent GDP • Every 10,000 people to have 3.3 patents	Innovation • Expansion of Research & Development (R&D), as well as other innovations, to lift Indian manufacturing to a higher level. • Building an India Inclusive Innovation Fund
Environment & clean energy • Non-fossil fuel to account for 11.4 per cent of primary energy consumption • Water consumption per unit of value-added industrial output to be cut by 30 per cent • Energy consumption per unit of GDP to be cut by	Managing the Environment • Securing ecology of watershed and catchments, • Cumulative Environmental Impact Assessments (CEIAs) for vulnerable regions • Carrying capacity studies in selected river-basins • Maintaining acceptable water quality and quantity

16 per cent • Carbon dioxide emission per unit of GDP to be cut by 17 per cent • Forest coverage rate to rise to 21.66 per cent and forest stock to increase by 600 million cubic meters	through pollution control of water resources • Restoration of wet lands/lakes and • Management of waste water discharge from industrial and commercial establishments into major water bodies is necessary. • The share of new and renewable energy could go up to 15 per cent by 2020
	Climate Change • National Action Plan for Climate Change • Expert Group on Low Carbon Strategies for Inclusive Growth Report
Agriculture • Annual grain production capacity to be no less than 540 million tonnes • Farmland reserves to be no less than 1.818 billion mu.	Farm Sector • Four per cent average growth in agriculture (food grains growing at about two per cent per year and non-food grains{notably, horticulture, livestock, dairying, poultry and fisheries}growing at five to six per cent • Farmer issues arising out of MGNREGA and RKVY schemes to be reviewed. • Separate water management schemes for agriculture. • New Technologies for the Farm Sector • Land and Tenancy Reforms
Livelihood • Population to be no larger than 1.39 billion • Life span per person to increase by one year • Pension schemes to cover all rural residents and 357 million urban residents • Construction and Renovation of 36 million apartments for low-income families • Minimum wage standard to increase by no less than 13 per cent on average each year	Livelihood/Urbanisation • Seven flagship programmes for rural areas to receive further boost. • Focus areas under MGNREGA - technical capacity at the local level has to be significantly enhanced and rural infrastructure creation • Step up investment in new urban infrastructure assets and strengthen urban governance • Address the basic needs of the urban poor
Social management • Improved public service for both urban and rural residents • Improved democracy • Better social management system for greater social harmony • More than 10 per cent of all residents will be registered as community volunteers.	Social management • Emphasis on Social Mobilisation • Strengthening of local (district) planning, supervision and execution • Encouraging an operational framework, which results in PRI and State Government officials working more closely • To improve the design of development schemes taking into account the special characteristics of the region/area/culture • Deepen financial inclusion. • PPP model should be extensively used wherever possible to build commercially viable infrastructure assets.

Reform • Encourage qualified enterprises to get listed in stock markets • In-depth reform in monopoly industries for easier market entry and more competition • Improved government efficiency and credibility	Governance and reform • Building Quality and Strengthening Local Institutions • Partnerships with Civil Society • Separation of Delivery and Policy Making Functions • Multi-faceted Approach to Deal with Corruption • Institutional Mechanisms of Conflict Resolution • Public Private Partnerships and Regulatory Reform • Electoral reforms

Appendix 2: China's Five Year Plans over the years:

Plan	**Timeline**	**Key feature**
First	1953-57	Stalinist Central Plan
Second	1958-62	Great Leap Forward
Third	1966-70	Agricultural Push
Fourth	1971-75	Cultural Revolution
Fifth	1976-80	Post-Mao (Reforms and Opening Up)
Sixth	1981-85	Readjustment and Recovery
Seventh	1986-90	Socialism with Chinese Characteristics
Eighth	1991-95	Technical development
Ninth	1996-2000	SOE Reforms
Tenth	2001-05	Strategic Restructuring
Eleventh	2006-10	Rebalancing Alert
Twelfth	2011-15	Pro-consumption

Source: Morgan Stanley Investment Management, Stephen S Roach – China's 12th Five-Year Plan: Strategy vs. Tactics.

India's Five year plans:*

Plan	**Timeline**	**Key feature**
First	1951-56	Agriculture led
Second	1956-61	Socialistic Industrial Policy
Third	1961-66	Self reliance in agriculture and industry (Plan affected by wars with China and Pakistan in 1962 and 1965 respectively), price stablisation
Fourth	1969-74	Society oriented (education, employment and family planning)
Fifth	1974-79	Non-economic variables
Sixth	1980-85	Infrastructure (Six per cent per annum growth achieved)
Seventh	1985-89	Welfare sector, programmes such as Jawahar Rozgar Yojana
Eighth	1992-97	Dismantling license prerequisites and reducing trade barriers
Ninth	1997-2002	Agriculture and rural focus
Tenth	2002-07	Globally competitive growth
Eleventh	2007-12	Employment and social indicators
Twelfth	2012-17	Sustainable and inclusive growth

*India had three annual plans between 1966 and 1969

Source: Planning Commission Of India, http://planningcommission.gov.in/plans/planrel/fiveyr/welcome.html.

<u>Appendix 3:</u> Key Development Indicators of India and China (2010)

	India	**China**
Population	1.2 billion	1.34 billion
GDP growth (annual %)	9.71 %	10 %
Gross savings (% of GDP)	28.4 %	51 %
Exports of goods and services (% of GDP)	18.4%	29.44%
Imports of goods and services (% of GDP)	24.85%	24.78%
Foreign direct investment, net inflows (% of GDP)	1.39%	3.14%
Foreign direct investment, net outflows (% of GDP)	0.76%	1.02%
Manufacturing, value added (annual % growth)	9	9
Manufacturing, value added (% of GDP)	15.96%	32.42%
Services, etc., value added (% of GDP)	55.35 %	45.89%
Services, etc., value added (annual % growth)	9.14%	9.21%

<u>Source:</u> The World Bank Statistics

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