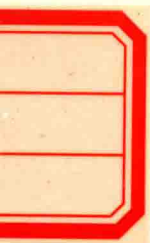




THE THIRD PLENARY SESSION OF THE 18TH CPC CENTRAL COMMITTEE AND CHINA'S TRANSFORMATION

Chief Editor Cai Xin

Deputy Editor Gao Feng Zhang Jingbo Geng Huamin



China Renmin University Press

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• Beijing •

图书在版编目 (CIP) 数据

十八届三中全会与中国的转型 = The Third Plenary Session of the 18th CPC Central Committee and China's Transformation; 英文/蔡鑫主编. — 北京: 中国人民大学出版社, 2014. 9

ISBN 978-7-300-19761-6

I. ①十… II. ①蔡… III. ①体制改革—研究—中国—英文 IV. ①D61

中国版本图书馆 CIP 数据核字 (2014) 第 163968 号

The Third Plenary Session of the 18th CPC Central Committee and China's Transformation

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出版发行 中国人民大学出版社

社 址 北京中关村大街 31 号

邮政编码 100080

电 话 010-62511242 (总编室)

010-62511770 (质管部)

010-82501766 (邮购部)

010-62514148 (门市部)

010-62515195 (发行公司)

010-62515275 (盗版举报)

网 址 <http://www.crup.com.cn>

<http://www.ttrnet.com>(人大教研网)

经 销 新华书店

印 刷 北京易丰印捷科技股份有限公司

规 格 160 mm×235 mm 16 开本

版 次 2015 年 1 月第 1 版

印 张 12.75

印 次 2015 年 1 月第 1 次印刷

字 数 185 000

定 价 138.00 元

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印装差错 负责调换

Preface

Since the year of 1978, China has started a great transformation. It unveils the curtain of reform and opening up. China begins to take economic development as a major task, and is devoted to boost economy and improve people's daily life. This change happens alongside the restructuring of the world economy. With its advantage in resources, China quickly joins the world economic system and achieves great success. Chinese people's living is greatly improved. China is also remarkably changed, and even the whole world is changed to some extent. If we recall this part of history, it's clear that reform and opening up is the fundamental reason for China's historical progress. China has the reason to be proud. China should feel happy that its residents' living standard is greatly improved, and its comprehensive national power is strengthened. Chinese people work to their bones to make the historical achievements. With merits of hard-working, hunger for happiness, intelligence and spirit of exploration, Chinese people create the brand of "Made in China". Nowadays, while feeling the inspiration, China needs unity to start another great transition in the 21st century. This transition has significant meaning, and it will display the following characteristics.

Firstly, economic construction is still at center stage during the whole transitional period. The last reform mainly solved the problem of economic development. Market economy is established, relatively sound industrial system is built up, and the economic volume continues to increase. Though China's economy has made remarkable progress, China is still a developing nation, and its per capita economic indicators are still lagging behind in the world.

Meanwhile, China faces huge pressure during the transition. China has become a giant manufacturer and economic powerhouse. Now China's gross domestic product is only second to the U. S. around the globe. But China's economy is still at the lower end of the economic system of the world, and has its own weakness. Now, China has to deal with shrinking outbound market, rising cost, and fierce competition from other emerging markets. Development of China's manufacturing industry comes to a bottleneck, while many low-end manufacturing sectors are in difficult position; some are even on the edge of life or death. China needs to think about how it can go through difficulties, and transition in economic sector is unavoidable. The core content of transition is changing economic development mode, which includes the following aspects: transforming from low value-added economic growth pattern to high value-added growth pattern, from cost-advantage pattern to technological innovation pattern, from export-oriented and investment-driven mode to domestic demand and consumption led mode.

Therefore, taking China's basic conditions into consideration, it's correct to make economic construction center stage to boost economy and realize China's smooth economic transition. That's also China's valuable experience during making continuous progress. We should stick to it.

Secondly, transformation in many areas will move forward together. During more than 30 years of reform and opening up, reform in other sectors besides economy didn't move together with economic development. Overall, economic development guided the path of development. During more than 30 years, on one hand, China has achieved great economic success, while on the other hand, there're many setbacks and lessons. During the process of further deepening reforms, it's acceptable to let economic growth slow down a little bit and let problems expose. To some extent, China's accumulated power and innovation could handle reasonable slowdown, and could solve the problems which are hidden behind rapid growth. China should think about the experi-

ences and lessons during reform and opening up. China should also learn that when economy develops to a certain level, social, political, cultural and ecological sectors need reform as well, to maintain wholly and coordinated growth and consolidate fruit from reform. If there's no corresponding reform in other sectors, achievements in economic field could lose, or China will face many difficulties in seeking further development.

The Third Plenary Session of the 18th CPC Central Committee noted, to promote the modernization of the national governance system and capacity, we must pay more attention to the implementation of systematic, integrated and coordinated reforms. The session proposed Five in One development strategy, and said to promote the development of socialist market economy, democratic politics, advanced culture, a harmonious society and ecological progress. We must make sure that the vigor of labor, knowledge, technology, managerial expertise and capital keeps bursting forth, all the wealth-creating sources fully flow, and the fruits of development benefit all people still more and equally.

In fact, only by promoting reforms in multiple areas, could China realize the great process of transition and realize the Chinese dream to carry out its responsibility to the world.

Thirdly, transformation will uphold the flag of reform. The soon to be started reform is comprehensively deepening the existing reform. It's a tough fight, and also a reform in tough places. It's an extension of reforms since the Third Plenary Session of the 11th CPC Central Committee. It's a new reform from a historical start. Reform will go along with China's deepening transition, and reform will shape the road of China's transition.

The Third Plenary Session noted, reform and opening up is a new and great revolution, which the CPC leads people of all ethnic groups to carry out in the new era. It is the most distinctive characteristic of contemporary China. Reform and opening up is a critical choice that has determined the destiny of contemporary China, and also an important instrument for the undertakings of

the CPC and the Chinese people to catch up with the times in great strides. Faced with a new environment and new tasks, we must deepen the reform comprehensively at this new historical turning point, so as to build a moderately prosperous society in all respects, eventually make China a modern socialist country that is prosperous, powerful, democratic, culturally advanced and harmonious, and realize the Chinese dream of the nation's great revival.

The Third Plenary Session of the 18th CPC Central Committee has made systematic deployment for comprehensively deepening reform, which has formed systematic reform mechanisms that support and promote each other. "Adhering to and improving the basic economic system, accelerating the improvement of the modern market system, accelerating the transformation of government functions, deepening the reform of the fiscal and taxation systems, improving mechanisms and institutions for integrated development of urban and rural areas, building a new open economic system, strengthening building of the socialist democratic system, promoting the rule of law, strengthening check and oversight system of exercise of power, promoting innovations in cultural systems and mechanisms, promoting reform and innovation of social undertakings, making innovations in social governance system, accelerating ecological progress, deepening reform of national defense and armed forces, strengthening and improving the Party's leadership in the course of comprehensively deepening the reform." The Third Plenary Session of the 18th CPC Central Committee initiated the reform. The whole country is elated and inspired. It will be written in the history.

At the new historical turning point, the curtain of China's transition and reform is opened once again. This time, the content of transition will be richer, and the situation is more complicated. The good thing is China's rapid growth in the past few decades has gained strong economic power, and social course has developed, the comprehensive national power is strengthened. But

the bad thing is, when China becomes an economic powerhouse, the difficulty for realizing transition may be greater, because the international environment is more flexible, and dependence on long-term development mode and complex interest network may block transition. Reform has entered a period of overcoming major difficulties and a deep-water zone. China must head forward and face challenges.

China will try to learn successful experiences and lessons from other countries' transition, and stick to successful experiences of reform and opening up, overcome the weakness of its own, and start to practice with sincere and braveness.

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Chapter One Economic Transition: To Improve Market Economic System

1.1 Reasons for China's Economic Transition

Since 35 years ago when China launched reform and opening up, economy has maintained a long-term stable growth, people's living standard has been greatly improved, which is a world renowned achievement. The credit should be given to Chinese people's hard-working and wisdom, and their eagerness to change the lagging-behind situation and hunger for happiness. Credit also goes to Chinese government's open market economy policy and system arrangement, and introduction into the world economic system, which is due to world industry division. China's economic achievements have improved people's daily life, which is the biggest success. Meanwhile, China's economic development has contributed a lot to the world economy, and has become a major engine for the global economic growth.

With the improvement of China's social productivity and comprehensive national power, China's international status and influence are also greatly promoted. In 2012, China's gross domestic product reached 51.9 trillion yuan, only second to the US. Public fiscal revenue increased to 11.7 trillion yuan. ^①Though China still

^① "National Bureau of Statistics: China's GDP in 2012 Stands at 51.9 Trillion yuan", People's Network, 2013-02-22.

belongs to developing countries, according to the World Bank, its GDP per capita has exceeded 6000 US dollars. That is to say, China has become a mid-level income country from low-level income country. China's export grew at an average rate of 12.2% from 2007 to 2012, and become the world's second largest exporter, while the volume tops any other country around the world.^① China has truly indeed become a major player of international trade, and deeply involved in the international economic system.

Then, behind the success, what is Chinese economy's problem? Only by finding the trouble and really knowing the economy, could the transition start smoothly. To be more visual, the book will illustrate with two sectors. One is ball point pen manufacturing, while the other is the photovoltaic sector. These two industries are representatives of China's economy and manufacturing sector.

Fenshui, a town located in eastern China's Zhejiang Province, enjoys a history of more than 1 300 years. It's called the home for the world's ball pen, as its annual production of ball pen amounts to more than 6 billion. From home to abroad, most ball pen are made in China, or to be more specific, made in Fenshui. The manufacturing started in the 1970s, when a veteran of Hangzhou Pen Manufacturing Plant visited his child, who was an educated youth in Fenshui. He found the town produced large amount of moso bamboo, while local residents were relatively poor. So thanks to his suggestion, local residents started to use moso bamboo to make ball pens. A few decades past, the ball pen manufacturing now has a complete production chain, from raw material supply, to manufacturing and packaging. Now there're more than 800 companies in the industry. Though the profit for each ball pen is only two to three yuan cents, the production volume is huge. Small profit for large

^① Details refer to Former Premier Wen Jiabao's "Government Work Report to NPC" in March, 2013.

volume is one of the main specialties of China's manufacturing industry. Ball pen making in Fenshui is a very good example of China's private manufacturing sector.

Tonglu Zhenghua Stationary Co., is one of the representatives. Zhang Zhenghua established the company more than a decade ago, and what makes him a success is his innovation. He created an ingredient for erasable ball pen, and then successfully improved his gel ink pen production. Thanks to his two innovative products, he won many OEM orders. When the world economic crisis broke out and overseas orders dropped significantly, his company survived. His annual turnover reached about 150 million yuan. Under pressure, many companies tried to be creative and improve their products' level to raise their products' price. For those who didn't do what Zhang Zhenghua did, their companies were forced to close down. Pen manufactured in Fenshui are sold around the world, but couldn't be bought in Fenshui town. As they all do OEM business and don't have their brand and their own distribution system. In 2008, the world financial crisis broke out. Overseas orders slumped by more than 70%. Many plants were forced to cease production for months. It's fair to say Fenshui pen manufacturers face great pressure as they heavily depend on exports. ^①

After the crisis, local entrepreneurs came to realize that they need to explore domestic market and keep transforming and upgrading their production. Many companies start to build their own brand and establish their own marketing system. One single company has limited power, the local enterprise association decided to develop shared brands under the leadership of a few leading companies.

Take China's PV industry as another example. In about 10 years' time,

^① Content on the pen making sector at Fenshui Town was based on Shanghai Television's documentary *The Big Transition*. The documentary's chief writer is Wang Ren; director is Wang Ren, Xu Guanqun. After broadcasting in the end of 2012, it was widely praised.

China's PV industry complies with the trend of developing new energy, and develops into a globalized industry, with top productivity around the world. Ups and downs of the sector are closely followed by the economic world.

The most closely watched event is that the European Commission issued a notice to launch anti-dumping investigation against China's PV product exports on September 6th, 2012. Though this is a high-tech sector, China's PV industry still heavily depends on overseas. The production equipment mainly comes from abroad. The silicon material is mainly imported. For instance, China imported 764 million US dollars of silicon from Germany alone. Meanwhile, China's PV products are mainly exported, especially batteries. More than 70 percent of the PV products are exported to European Union in 2011. ^①

Though China's PV industry has some advantages in manufacturing, it lacks core advanced technologies. It gains market share through high price-performance ratio. The products are mainly customized for overseas markets and their productivity all rests on foreign governments' subsidies, while makers don't put much effort in exploring domestic market. Noticeably, as an environmental-friendly and energy-saving sector, the production of polycrystalline silicon produces a large number of pollutants. And bio-safety disposal of these pollutants is not cost-efficient. In recent years, as governments around the world are gradually cutting subsidies to the new energy industry and the global PV industry is awash with excess capacity, the golden time for the industry has passed. Many countries has reduced or even cancelled their subsidies for the industry, and PV companies' profit slumps. Some even go broke. Chinese companies feel huge pressure as well and many are teetering on the brink of bankruptcy. If EU levies punitive tax on China's

^① "EU's Antidumping Investigation Against Chinese PV Products Will Hurt Both Sides", Xinhuanet, 2012-09-06.

PV exports, many companies will go bankrupt, hundreds of thousands of workers will lose their jobs. EU will have to bear the lost of rising cost. It's a lose-lose situation.

Fenshui ball pen making started from nothing, but now they're leading in the world. Fenshui people should be proud of themselves. They made such great achievements through hard-working and wisdom, continuous learning and innovation, just like China's entire manufacturing industry. Meanwhile, it took Chinese PV industry ten years to become the world's top three makers from nothing. They should feel proud, too. These two industries are representatives of Chinese factories, and they share the same characteristics of the name of "Made in China". They grow fast, products are cost-efficient, and their main market is overseas. But there're also differences. Fenshui ball pen making is a traditional industry, while PV industry is a high-tech one. Fenshui ball pen making grows independently in private, while PV factories have local governments' support. Ball pen making is decentralized, while PV manufacturing requires certain scale. For example, many PV companies are publicly listed, which means even larger scale. However, they both face the same problem: they have reached the ceiling of their industry, and they don't know where to go next. To some extent, they both face possible crisis.

If taking other industries, such as textile, shoe making, steel, auto making and electronics, into consideration, we could find some characteristics and problems in China's manufacturing sector. First, the production is huge, but profit margin is small. They make money out of low cost, rather than taking the lead in the sector. Second, many sectors lack of centralization, repeated investment resulted in waste of resources; extensive growth mode is not changed, and they pollute heavily. Third, products' added-value is relatively low, companies don't have much core technology, their innovation ability is limited, they don't have their own brand, and their distribution ability is week. Fourth, they depend too much on foreign markets, and they