

Sacred Heart University Honors Capstone:
How the Communist Party of China Developed Sustainable Economic Growth

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I. Introduction

“It does not matter whether the cat is black or white so long as it catches the mouse,” stated Deng Xiaoping, who served as the President of the People’s Republic of China (PRC) from 1978 to 1989. What Deng Xiaoping meant by this was that it did not matter what type of economic reform took place in China, so long as it yielded a more prosperous economy for the nation. Additionally, he realized that the communist regime in China would be threatened if there was no corrective action implemented to improve the living standards of Chinese citizens through economic reform. After Deng Xiaoping took control in 1978, China’s economy grew rapidly as its Gross Domestic Product (GDP) grew more than eighty times from 149.5 billion USD to 17.73 trillion USD in 2021. In this time period China has also developed into the world’s second largest economy in terms of GDP, behind the United States whose 2021 GDP was 23 trillion USD. In 2021, the Chinese Communist Party (CCP) celebrated its centenary and announced the achievement of reaching Xiaokang- a Confucian term used to describe an imperfect society where all citizens are sufficiently accounted for. Some economic scholars, such as M. Y. Zakharov, have stated that the CCP’s achievement of Xiaokang has progressed present and future development models portraying Chinese economic elitism and exclusivity (Zakharov, 2022). The economic reform seen within China has prompted individuals across the world to invest into the nation given its above average growth rates. However, recent data has indicated that investors are becoming less confident in the future growth of the nation given the implied risks. A particular risk that is heavily considered by investors is the theory that the authoritative government will pursue further communistic policies. Foreign investors do not believe that a socialist government can further promote economic growth that will be sustained into the future. Despite this belief, there is a great deal of evidence that supports China’s government has been

capable of fostering a sustainable economy that may be able to grow further. The PRC's government policies have promoted sustainable economic growth as seen in its prioritization on human development, its transition into the "New-China Era," and its usage of Five-Year Plans to structure the nation's future development.

The CCP, led by Xi Jinping, seeks to demonstrate to the world that their government model is superior to the popular electoral democracy (Blanchette & Medeiros, 21). In recent years, the exponential economic growth seen in China has led the Party to question whether their historical view of communism is still applicable and viable in a society that has incorporated partial capitalist characteristics. As the CCP is the centralized power of China, it has the ability to produce specific policies that guide Chinese society in certain directions. By decentralizing the power of the CCP and allowing provincial governments the ability to oversee business in their respective region, a competitive nature sparked amongst the provinces. This competitive feeling generated economic growth as each region's government wanted to become the most developed and highest yielding region. Just as China developed and grew rapidly, so has the total membership size of the Party. Recently, Xi Jinping has focused on increasing the power of the state and diminishing the authority of local governments through his anti-corruption campaign. This campaign is expected to restrict further features of capitalism and rid government figures with contrasting views from Xi Jinping's. The future of China's economy is questionable due to Xi Jinping's actions, especially as economic growth was permissible through opening China and allowing local governments to have greater influence over their territory. Further, Chinese officials have begun to question if a greater quantity of members in the CCP would deteriorate the overall quality and effectiveness of the Party. This had been the case with the Soviet Union years before its collapse. Further, Xi Jinping is focusing on efforts to maintain control over the

private sector to ensure the CCP controls and influences the majority of private and state-owned enterprises. Specifically, the central government has pushed seventy three percent of private companies to establish as a Party organization by 2018, allowing the Party's agenda to transcend through all facets of Chinese society. (Blanchette & Medeiros, 30).

II. The Chinese Communist Party's Emphasis on Human Development

In the late 1960s, the CCP leader Mao Zedong launched the Cultural Revolution to ensure the long-term stability of communism throughout China. At the time, Chinese culture appeared old-fashioned in comparison to the rest of the world, meanwhile the government was transitioning towards a capitalist system and losing its socialism roots. Mao's idea to reassert and consolidate the power of communism was to "clear away the evil habits of the old society" and destroy the "monsters and demons" that were responsible for the changing system (Phillips). To restore China back to its communist roots, Mao led a nation-wide campaign that verbally and physically assaulted any individuals who had any responsibility for the instability of communism in China. As a result, economic development in China abruptly halted, resembling a connection between human development and economic growth (Zhang & Zhang, 39). After the cultural revolution, human development became a key element of discussion for the future of the CCP's agenda.

Following the Cultural Revolution, the CCP began implementing policies that aligned with the needs to protect society. Consequently, human development in China began to increase at an accelerating pace, as measured by the Human Development Index (HDI). The HDI is a key index that allows one to measure the overall human development in a nation based on three factors: the overall health, knowledge base, and the standard of living within a nation. Since 1980, the first year HDI was calculated, China's HDI has grown from 0.423 to 0.761 in 2022.

For comparison, the 0.761 HDI reading places China within the middle human development level, and the average HDI amongst all countries in 2022 is 0.722. The positive correlation between China's economic growth, as seen in the aforementioned per capita GDP, along with their HDI growth is apparent. Since Chinese officials have noticed the relevance of human development on economic prosperity, numerous meetings and plans have been developed by the CCP to align their policies with "mainstream" policies seen throughout the world (Zhang & Zhang, 42). As China is still transitioning from emerging market status towards a developed economy, policy makers are able to learn from past mistakes of other countries and implement more impactful actions for China. Specifically, since 1989, the CCP incorporated an expert panel to discuss how human rights have played a role in the development of the Western world and their implications towards societal reform (Gui, 120). These experts consult key political figures while additional policies are drawn up. By developing a panel that is able to research the development and implications of human rights in the West, the CCP is able to enact policies that effectively assist in the development of humanity while still applying their communist ideologies. Ultimately, the ability to compliment economic growth with development of humanity at all levels in China has been a source of economic sustainability for the nation.

One of the three components of the HDI is the overall knowledge of citizens in the country. As education is a key element necessary for human development, it has been imperative for China to advance higher education for all of its citizens. Since 1999, the Chinese government has expanded its policies to strengthen educational institution's scaling, quality, capacity, and systemwide enhancement (Fan, 179). Specifically, the CCP has administered thirty policies in the past thirty years that have incentivized the overall development of higher education systems in China. More recently there has been a greater emphasis by the CCP to erect additional

vocational higher education institutions to allow the nation to induce a highly skilled and specialized workforce. This strategic initiative has come as recent growth targets for China's GDP have missed their targets and the cited factor was the shortage of labor for technical jobs. From the perspective of the CCP, the goal is to attain high-quality full employment rather than increase educational levels of society (Fan, 184). The usage of policies to increase enrollment at Chinese higher education institutions is a channel for the government to leverage future employment goals. While the communist regime is focused on creating a strong labor force that will yield a sustainable economy, the CCP has further added to the development of humanity in China. Subsequently, the CCP has generated economic growth through focusing on the improvement of internal factors within China's borders. As the socialist regime is transitioning towards becoming a self-reliant country, the government must continue to implement policies that will strengthen China from the bottom up.

III. Transition Into the “New-China” Era

Innovation has altered history in China, but the most notable development in recent history is the transition into a “New-China” era. Although there is not a set time period for the realization of China entering into this new era, one cannot deny the tremendous growth of the nation with advancements throughout all aspects of the country. One of the major factors on the development of China was the opening of its borders to international business and transitioning into more of a capitalist economy. Prior to the economic reform, all business was state-owned with profits maintained by the state. Beginning in 1978, when President Deng Xiaoping opened China's borders to outside business, the government understood that it would be necessary to scale back this practice by allowing towns and provinces within China to own businesses (Wu, 754). By allowing towns to own and run their respective businesses, a sense of pride and

competitiveness was created throughout the nation, prompting economic growth to spike. Decentralization of the CCP's power was a key turning point for China.

In the early 1990s, the Soviet Union collapsed, making the People's Republic of China the largest communist party in the world. At that time Deng Xiaoping understood that the nation must respond accordingly to prove that communism is capable of success despite the Soviet Union's demise. Deng Xiaoping embarked on a mission throughout the Southern Chinese provinces to drive the idea of learning from capitalism to further develop the nation's economy. Deng Xiaoping understood that stagnation was a catalyst for the collapse of the Soviet Union, and slow economic growth could not be tolerated in China. The CCP at the time was still focused on centralizing their power, meanwhile Deng Xiaoping was attempting to boost the efforts of provincial governments to spark the required rapid economic growth that would prevent the nation from falling into a period of stagnation (Li, 173). Deng Xiaoping was successful in decentralizing the power of the CCP and catalyzing economic growth throughout the nation.

In 1990, two national stock exchanges were authorized by the People's Bank of China, allowing Chinese corporations to be funded by foreign and domestic investors. Larger state-owned enterprises (SOEs) became tradeable companies, meanwhile the Chinese government still maintained the majority of the shares. Today roughly 70% of Chinese equities listed in major China indices are SOEs, while the other 30% are public companies that operate independently from the CCP while still subject to government oversight. As China is a communist state that oversees all business within its borders, the government is able to shape and guide all industries in a direction that promotes economic equality. Despite the transition towards a market economy, China is not searching for ways to dissemble their communistic policies. Given the CCP owns the majority of the financial institutions in China, the government has been able to control where

funds flow, and when to cut off certain companies or industries. A skeptic of China's communist policies would argue that the control of the government would restrict some companies from achieving their greatest potentials through limiting their profits. One of the main reasons the CCP restricts businesses from generating excess profits is due to the communist ideology stating that a corporation taking a profit would be exploiting their labor force. Though this argument is sound, the CCP is able to lay out strict goals and achieve them through the inner workings of the regime. The CCP ensures that no matter what issue may lay in their way, there will always be a solution. Further, the government has begun to allow market forces to play a greater role in their economy by liberalizing the pricing of commodities and services (USChina.org). Deng Xiaoping took lessons from the Soviet Union's fall and understood that economic flattening proved to catalyze their downfall. As a result, Deng Xiaoping began moderating some communist ideologies and took lessons from capitalism to generate rapid economic growth in China. Had it not been for this transition, the CCP may have imploded as economic unrest would have caused citizens to become unruly.

One of the most notable accolades of the Chinese government was their ability to grow their middle class significantly. Over a forty-year time span, the CCP successfully lifted more than 800 million people out of poverty. This is still an ongoing case in China which the nation believes will continue to solve as it further develops. Though the outstanding growth of the middle class is notable, it raises another key concern about the uncertainty of the nation's future. The CCP has addressed this issue by implementing quotas for each regional and local government to achieve in bringing citizens out of rural, poverty-stricken parts of the country and relocate them to more urban areas where they can live more sufficient lifestyles. In the 13th Five-Year Plan, this was a clear focus of the CCP as they expected the number of citizens targeted in

this program to grow by four times to an additional 10 million citizens by the end of 2020 (Tan, Liu, & Dang, 479). The success of this initiative has been clear, as the participants in the relocation program since 2013 have seen a significant increase in their total income by 9.61%, which is mainly a result of receiving higher wages (Zhang, Xie, & Zheng, 1). As the CCP continues to resolve inequalities throughout Chinese society, it has the ability to create policies and programs that can help millions of citizens maintain a higher quality of life. As a result, these citizens urbanize society and move the nation into an economic powerhouse that can continue to demonstrate rapid growth.

According to a 2007 report from the World Bank regarding emerging countries, there is a middle-income trap that leads to a significant decrease in growth rates once the emerging countries achieves a level deemed “middle.” In 1992, China officially became a middle-income country, and an upper-middle income country in 2009 (World Review of Political Economy). The middle-income trap states that there is a specific turning point for the nation’s growth rates. This turning point was first brought up in 1968 by Arthur Lewis, an expert in developmental economics. Lewis claimed that the most influential factor to this theory is that the labor force in a nation will ultimately slow following large investments into corporations. These investments would produce temporary surplus labor, but in the long run increase labor costs due to worker expectations (Lewis, 1954). Further, it is believed that China’s one-child policy will add a headwind to its future labor market as the population growth was cut down significantly by the CCP. Today, Chinese workers have been receiving higher wages, decreasing the profitability of these companies. Though this issue is a short-term flaw in the CCP’s plan for the development of China, one must keep in mind that the nation has been playing the long game. Specifically, the Chinese government has been chasing the “Chinese Dream” where the growing middle-class

consumes greater volumes of durable goods. This trend will allow for a reduction in the inequality between diversified groups of citizens in China (World Review of Political Economics). Today, Xi Jinping continues to pursue this policy which aims to increase household consumption through draining the precautionary savings that Chinese citizens are maintaining. China still has time before it becomes a developed economy, but the CCP has shown that it understands the complexity of the situation through its approach towards the middle-income trap and how to overtake the trap.

Historically, authoritarian regimes have been the cause of their own downfall due to their constricted views for society and lack of social and economic flexibility, as seen in the Soviet Union in 1991. Understanding that a one-party dictatorship has historically prevented nations from growing in a sustainable manner, many experts have begun to question China's ability to apply their policies in an adaptable way (Tsai & Lin, 155). One way that the CCP has addressed this concern is through the increased usage of think tanks. In these think tanks, scholars and experts come together to combine research and data that will be discussed for the forward guidance of Chinese policies. This is a very common practice used around the world where the government listens to its people to gauge the feelings of future policy implementations. Today China ranks second in the world for total recognized think tanks, ten of which are ranked amongst the top 174 think tanks in the world (Li & Song, 160). Part of China entering into the "New-China" era is the government's transition towards a socialist consultative democracy where the government promotes democracy through in depth consultancy to address discrepancies, create stability, and establishing equality throughout China. Despite the transition towards a new framework where the government seeks the insights of its citizens, there are worries that the oversight by the CCP will corrupt the research and data in these think tanks. If

this continues to happen, China could fail to progress towards a new governmental structure where growth is temporary, and development slows (Li & Song, 167). Though there are arguments against the CCP being able to reform and adapt its practices to emerge into a developed economy, the country has continuously proven itself otherwise.

IV. Usage of Five-Year Plans

Understanding the complexity for China to transition into a developed country, the CCP implemented Five Year Plans (FYPs) to strategically dictate the structure and organization of the nation's future. The FYP model was adopted from the Soviet Union who utilized this model to produce rapid industrialization. Similar to the Soviet Union, every 5 years the CCP releases social and economic goals and projections for the Chinese economy while briefly discussing the direction it will take to achieve these marks. As society has evolved within China, so have the plans set forth by the government. Today, the CCP must address many issues and curtails to future economic growth and prosperity, such as the middle-income trap. Within China's 14th FYP, which was initiated in March 2021, the topics highlighted the most in the report were strengthening China's domestic socioeconomic foundations and building upon their technological and innovative advancements. These topics are considered of the highest priority within China as they were discussed throughout the report at a greater volume than other critical topics such as governance, welfare, and urbanization. Nonetheless, the CCP has addressed numerous weaknesses that they wish to resolve through future policy implementations. The FYP has been an effective guiding map for Chinese policies that have enabled the government to pursue sustainable growth since the first FYP in 1953.

One way that the CCP can execute on their FYPs to promote domestic sustainable economic growth is through the designation of key industries that will receive preferential

treatment from the central government. Specifically, the Chinese government is able to control which industries may receive larger subsidies and/or lower taxes to ensure the industry responds in a favorable way. From 1998 to 2007, the CCP focused on developing China's exports to strengthen the manufacturing industry in China. To do this, the CCP provided large subsidies and tax breaks to the key industries that exported goods. Further, the government leveraged large financial institutions to aid exporting and manufacturing companies with lower borrowing costs and greater debt support (Yu, Dong, & Feng, 144). Through using the FYPs as a guide for China's economic development, the central government was able to allocate resources accordingly to generate growth within target industries aligning with the FYPs.

Part of infusing economic growth within China has come from local governments issuing bonds to raise capital for further deployment of funds and the mitigation of expenses. As such, local governments in China have increased their debt levels dramatically, which the central government recognized in their thirteenth FYP (Shi, Wang, & Wang, 819). This shows the fast reaction taken by the CCP to address threats towards the continuity of sustainable economic growth. The reason that local governments are at risk of not paying off their debt is because of the tax-sharing system, a major element of the communist regime in China. In response, the CCP created the New Budget Law to constrain the debt volumes that local governments were generating and placed greater supervision over resource allocation (Shi, Wang, & Wang, 831). The CCP recognized this potential headwind for economic growth as local governments were amassing more debt than they could afford. Subsequently, the government implemented a policy through the guidance of the thirteenth FYP to resolve this issue. The CCP understands that this law will likely need to be modified, or removed, at some point when they see it necessary. As the Chinese economy continues to develop at a rapid pace, it is up to the central government to

continuously adapt or modify policies that will help propel economic development in the desired direction.

V. Conclusion

As seen throughout this paper, the CCP has been the catalyst for economic growth through the decentralization of its power. Deng Xiaoping was very successful in his campaign to keep communism alive despite the downfall of the Soviet Union. His prevention of stagnation was permissible through the alleviation of strict communist ideologies and transitioning toward accepting a few capitalist system beliefs. Through opening China to foreign investment and driving national economic reform, Deng Xiaoping allowed China to take its first step towards becoming a developed nation. Today, despite incorporating policies that align with short-term economic growth and reform, it appears that President Xi Jinping is taking a step back. Xi Jinping has made it clear through his anti-corruption campaign that he plans to reconsolidate the power of the CCP. Although this allows the nation greater control over future business and economic activity, it revokes the progress that allowed China to grow exponentially. China has proven to set and achieve their goals continuously, but their growth is slowing. With the announcement of achieving Xiaokang, one must contemplate when society must transition from a planned one towards a free-market economy. This transition is necessary to allow China to overcome many risks, including the middle-income trap, its ability to become the largest economy, and the future organization of the CCP. This transition would be a tremendous shift from their current system; therefore, it must be enacted in a gradual manner. A successful transition into the recommended system would allow China to function as the highest performing economy in the world while overcoming the threat of stagnation.

The CCP has pursued a government model that is unfamiliar to much of Western society. Consequently, Western investors have been hesitant to invest their assets into Chinese securities due to the uncertainty of the CCP's navigation of China's future. As growth rates of China's economy exceed most of the world, it is evident that the central government consistently promotes sound economic development. The dilemma exists in its ability to foster these economic capabilities in a sustainable fashion while executing their political agenda. Although the future of China is uncertain, one can understand that the CCP has been responsible for numerous achievements since opening its borders to foreign investors. Since then, it is evident that the CCP has placed a priority on the development of society. Specifically, through their ability to combat poverty throughout the nation, the central government has recognized and is actively fighting the problems regarding human development. Further, the transition into a "New-China" era has brought about many challenges and opportunities that the CCP has faced head-on. After successfully reacting to the everchanging perplexity of China, the government has discovered how operating methods to promote its ideologies, philosophies, and further the national economic growth in a sustainable way. Lastly, the government has control over corporations and institutions, therefore, it has been able to set forth policies to enact economic trajectory based on their desired outcomes. This is a direct result of China's FYPs that have assisted the central government in pushing the economy in the desired direction. Although these policies may seem harsh and restrictive to a Western individual, this is considered normal to Chinese citizens. Furthermore, one cannot deny the success of the CCP in generating economic growth after examining growth models of the Chinese economy. The CCP will continue to promote its ideologies and philosophies in a manner that will catalyze further economic growth,

but its ability to further generate sustainable economic growth is dependent on future CCP policy implementations.

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