

## Exploration of Xi Jinping's Concept of Common Prosperity

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**Shyam Saran**

Member, ICS Governing Council and Former Foreign Secretary of India

[saranshyam46@gmail.com](mailto:saranshyam46@gmail.com)

### Abstract

This paper explores the concept of Common Prosperity – a notion that has a long history but has acquired contemporary significance in its current interpretation by China's party and state leader, Xi Jinping. It has a domestic political dimension signalling a turn towards more egalitarian policies. In its external dimension, it reflects China's advocacy of "win-win cooperation" and its contribution to the "community of common destiny of mankind", another signature phrase associated with Xi Jinping.

### Keywords

Common prosperity, dual circulation strategy, China, Xi Jinping

**This ICS Analysis is based on the remarks made during the 4<sup>th</sup> India Forum on China (IFC) on 3-4 December, 2020 organised by the Institute of Chinese Studies with Konrad Adenauer Stiftung (India Office) and Goa University**

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Common prosperity conveys China's role as a development partner helping narrow the gap between developed and developing countries. The phrase itself was used in the 1950s to underline the goal of creating an egalitarian society in China following the success of the CPC in liberating China from a semi-feudal and semi-colonial past. It encompassed policies such as the setting up of peoples' communes in the rural areas, the nationalization of the means of production and advocacy of simple and frugal living. The emphasis on egalitarianism persisted throughout the period when Mao was the undisputed party and state leader, from the establishment of the People's Republic right up to his death in September 1976. This was a period characterized more by shared poverty rather than common prosperity, although important advances were made in extending health and education services to the population at large.

The hitherto strong commitment to frugality in society and the principle of egalitarianism were jettisoned in practice if not always in rhetoric.

The term underwent a complete makeover after Deng Xiaoping took over the reins of leadership in 1977 and launched the "reform and opening up" of the Chinese economy in 1978 at the third plenum of 11<sup>th</sup> Central Committee. Deng put forward the proposition that in order to bring

prosperity to the people of China it was fine for some individuals and localities to get rich first and to then help and pull others along to also become rich and prosperous. "To get rich is glorious" is a phrase attributed to Deng but there is no record of him having used it, but perhaps it reflects the spirit of his reforms. The hitherto strong commitment to frugality in society and the principle of egalitarianism were jettisoned in practice if not always in rhetoric.

Deng's reforms launched the country on a four-decade long phase of unprecedented and rapid growth, creating a mass consumption society, celebrating ostentatious living and sprouting its own growing band of millionaires and billionaires. Though State Owned Enterprises (SOE) continue to occupy a significant place in the national economy, it is the private sector which has been the engine of growth. Thus, Vice Premier Liu He pointed out recently that the private sector contributes 50 per cent of tax revenue, accounts for 60 per cent of China's GDP and provides 80 per cent of urban employment in the country. The Deng economic strategy continued to be followed and expanded by the succeeding regimes headed by Jiang Zemin and Hu Jintao. However, the runaway export and investment led growth also generated serious imbalances in the economy. Income and wealth inequalities reached levels not seen since the founding of the republic. Chinese reports point out that the Gini coefficient which measures income and wealth inequality, rose from 0.32 in the early years of reform to 0.46 in

2019. (Note: the closer the figure to 1 the greater the inequality). In May 2020, Chinese Premier Li Keqiang said that China still had over 600 million people, or over 40 per cent of its population of 1.4 billion, whose monthly income was barely a thousand yuan, or \$140. This was followed by a declaration by Xi Jinping in February 2021, to the effect that China had achieved the miracle of eradicating extreme poverty in China. Extreme poverty in China is defined as a per capita income of \$ 1.69 a day or \$ 617 per annum. The World Bank threshold is \$1.90 a day. Since Xi is talking about eradicating extreme poverty this does not contradict Li Keqiang since the latter was drawing attention to the very low incomes earned by a very large proportion of the population, particularly those living in rural areas. They are poor but not extremely poor.

Though economic issues do find a place in the long and fairly elaborate document, it should be noted that the term “common prosperity” is not highlighted as a major theme.

The glaring income and wealth inequalities are considered a source of social instability and incompatible with a socialist society. Since taking over China’s top leadership in 2012, Xi has signaled his worry over the ostentatious display of wealth, the rising influence of China’s successful multinational companies,

especially those in the high tech and digital space and the pervasive corruption which has had a corrosive influence on both the Party and society. The latest Resolution of the Central Committee of the CPC on the major achievements and historical experience of the Party over the past century, adopted on November 16, 2021, reaffirms the reform and opening up policies of the Deng era, but also draws attention to the consequential adverse impacts such as weak Party leadership, “newly emerging problems in reform, development and stability” and the spread of “startling level of corruption” within the Party. Though economic issues do find a place in the long and fairly elaborate document, it should be noted that the term “common prosperity” is not highlighted as a major theme. It is mentioned as one of the several objectives to be achieved by 2035 in the march towards the Second Centennial Goal. It is also referred to in the context of China’s external relations. It is one of the several objectives of Party policy. This leads one to think that the decision to make it a defining slogan is probably of more recent origin. One needs to ask why.

Xi Jinping’s economic strategies have evolved from a phase emphasizing “supply side structural reforms”, first announced in 2015, followed by a “dual circulation” strategy, adopted formally in May 2020, and now the pursuit of common prosperity since August this year. There are overlaps among these three

concepts but each has a somewhat different point of emphasis.

The upgradation of Chinese industry needed increasingly sophisticated components and intermediates which had to be imported.

The Supply Side reforms were unveiled at the Central Economic Work Conference in December 2015 and comprised of five elements:

1. Cutting excess industrial capacity
2. Destocking property inventory
3. Corporate deleveraging
4. Lowering corporate costs (including through tax cuts); and
5. Improving “weak links”

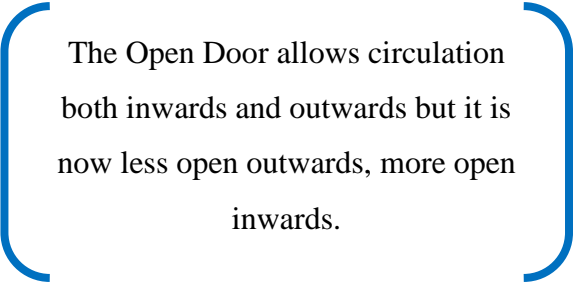
The commentary on Supply Side reforms drew attention to Xi’s directive to guide the “new normal”, which the deceleration in China’s GDP growth. A specific reference was made to the imbalances unleashed by the massive economic stimulus of nearly \$600 billion during the global financial and economic crisis of 2007-08, which further expanded investment led growth and property development, creating a mounting debt overhang. Even in 2015 it was estimated that China’s overall debt to GDP ratio had exceeded 250 per cent. An important objective of the reforms was to shift the economy from its reliance of investment and exports as growth drivers to a consumption,

innovation and service-oriented growth pattern. It was argued that there was a mismatch between the category of goods and services which China’s consumers were demanding and those supplied by Chinese manufacturing industry. This led to rising imports of such goods to meet domestic demand. Supply side reforms involved changing the production pattern of domestic industry to make it more aligned to the pattern of demand in the country. Similarly, the upgradation of Chinese industry needed increasingly sophisticated components and intermediates which had to be imported. Local production had to be restructured and innovation promoted in order to reduce dependence on foreign imports and technology. This was the driver behind the ambitious Made in China 2025 Plan announced in 2015. It listed some of the key and advanced sectors in which China should attempt a significant if not dominant position. Among the sectors identified in the plan are semi-conductors, robotics, aerospace, green energy and electric vehicles and advanced materials.

A massive amount of resources has been deployed to roll out the plan and after six years, success has been achieved in some but not all areas. For example, China has been unable to reduce its dependence on imports of high-end semi-conductors. It has lagged behind in the aerospace field. This ambitious and wide-ranging Industrial Policy is a key component of Supply Side Structural reforms. Over-capacity in steel and coal industry has been largely

eliminated but deleveraging of the real estate and property sector has proved to be more difficult and risky.

The Dual Circulation strategy which followed in May 2020 was related to both the outbreak of the highly disruptive Covid-19 pandemic and the fallout from the U.S. - China trade war. In an environment of mounting risks and a more hostile and protectionist international economic environment, the Dual Circulation strategy sought to achieve greater economic self-reliance. According to a Chinese analyst, if the previous rebalancing under Supply Side reforms was aimed at reducing China's dependence upon exports, in contrast, the thrust of Dual Circulation was to reduce dependence on imports and increase self-sufficiency. The effort would be to meet most of increased domestic demand through domestic production rather than imports. This would include the domestic sourcing of consumer goods and services but the domestic sourcing of intermediate goods and components in key industries, semi-conductors being one such category.



The Open Door allows circulation both inwards and outwards but it is now less open outwards, more open inwards.

The 14th Five Year Plan (FYP), released on 4 March 2021, has a full chapter on Dual Circulation and states upfront that self-reliance is the over-riding objective. It emphasizes technological upgradation and innovation as key to advancing self-reliance. The domestic circulation through domestic demand and innovation would be linked to external circulation through foreign capital and exports, with one being used as a hedge against the other. It is made clear that it is domestic circulation which is the dominant one; external circulation is supplementary. The Open Door allows circulation both inwards and outwards but it is now less open outwards, more open inwards.

### **So where does Common Prosperity fit into the scheme of things?**

In the 14<sup>th</sup> FYP, Common Prosperity does find a mention, but it is defined in a manner different from what it is designed to convey at present. The Plan talks about achieving common prosperity through “new rural revitalization and urbanization strategies.” It puts the concept in the context of bridging the growing gap between the rural areas of the country and urban areas and narrow the income and wealth divide between them. The Plan envisaged achieving an urban population of 65 per cent by 2025 and 75 per cent by 2035. The 2035 Vision document in the Plan sets forth a number of goals for that year. Among them is that of “raising per capita income to the level of moderately developed

countries but with a significant expansion of the middle-class population.”

On 17 August 2021, at the Central Finance and Economic Affairs Work Conference, Xi Jinping highlighted the concept of common prosperity declaring that it would be the “focal point” to ensure both the well-being of the people and the Party’s “long-term ruling foundation.” Some specific features of this version of Common Prosperity include:

1. Reasonably adjusting excessive incomes;
2. Promoting giving back to society by those who have become wealthy i.e. to encourage philanthropy;
3. Achieving an “Olive shaped distribution structure with a large middle and two small ends”;
4. Reducing regional disparities and the rural-urban divide;
5. Promoting housing for living and not for speculation;
6. Providing public services in the shape of education and health in an inclusive manner so as to promote upward social mobility; and
7. “Maintain the public ownership system (i.e. the state-owned enterprises) as the mainstay and simultaneously develop the economics of a variety of ownership systems.”

These elements spelt out in Xi’s speech at the conference have acquired salience in the light of severe penalties imposed on China’s most vibrant and successful private firms like

Alibaba, Weibo and Didi Chuxing and forcing the large property development companies like Evergrande to deleverage in a precipitous manner leading to near bankruptcy. There has also been an attack on China’s “celebrity culture”, targeting popular artistes and performers. The video gaming industry has been hit by a state imposed limit on the number of hours that schoolchildren can entertain themselves on the net. Online education and tutorial firms have been prohibited from running their services for commercial profits.

While the concept of Common Prosperity has several elements in common with the earlier Supply Side reforms and the Dual Circulation strategy, it has broadened its meaning to indicate a new and strong emphasis on an all-round inclusive development with an unmistakable egalitarian flavour. It now has a clear ideological dimension. And yet it neither figures in its current elaborate incarnation in the Party History document nor in the 14<sup>th</sup> FYP with the prominence it has now acquired. We know that the decision to come out with the Party History resolution was taken in March, 2021 and was accomplished in six months, that is by September. It was on 17 August, that Xi elaborated the more expansive version of the concept and elevated it into a “focal point” for ensuring the “long-term ruling foundation of the Party.” It appears, therefore, that the decision to make it a key guidepost in relation to China’s economic strategy was taken at a fairly recent date. Could the launch of this initiative which

has political, ideological, economic and social dimensions and which attempts to shift China on an altered trajectory, be additionally related to intra-party contention?

Those who gained most from these networks have been members of the “princelings” faction or the privileged descendants of the first generation of CPC revolutionaries.

In the years of runaway growth delivered by China’s private sector, very strong and intimate connections were established between Chinese entrepreneurs and party functionaries at all levels. A symbiotic relationship developed between the Party-State and business tycoons enabling mutual enrichment. The New York Times expose, in 2012, of the wealth amassed by the family of the then Premier Wen Jiabao is well known. The recent book by Desmond Shum, entitled Red Roulette has many details of this “guanxi” or relationships between politics and business. Those who gained most from these networks have been members of the “princelings” faction or the privileged descendants of the first generation of CPC revolutionaries.

The members of this faction have fully exploited the opportunities on offer by extending political cover, protection and patronage to enterprising business leaders. We know that Wang Qishan who is Vice-President and has been regarded as one of the closest and trusted aides of Xi Jinping, assisted Jack Ma of Alibaba in the latter’s climb to multi-billionaire status. In targeting large and rich private companies Xi may be holding out a threat to their powerful political patrons. This would be useful in confronting any influential opposition to his personal leadership and his policies. But beyond the factional struggles, one does discern in Xi’s strong advocacy of Common Prosperity a perennial preoccupation of CPC leaders with ensuring social and political stability in China. Through Common Prosperity Xi appears to be preparing China for a new era of slower growth and signaling a decisive shift away from the Deng era. He is casting himself in the role of a leader of the people, capable as no other of turning a pear into an olive!

**Ambassador Shyam Saran** is a career diplomat born on September 4, 1946. Since joining the Indian Foreign Service in 1970, he has served in several capitals of the world including Beijing, Tokyo and Geneva. Currently, he serves as Chairman, Research and Information System for Developing Countries, which is an autonomous think tank specializing in studies on economic and trade related issues. He is also a Senior Fellow with the Centre for Policy Research, a prestigious think tank which covers a wide range of political, social and economic issues, including foreign policy related issues.

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