

China's economy

A new epic

China's new five-year plan is at odds with itself

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SIX million tonnes of cement; 5m tonnes of pig iron; 4.12m tonnes of steel—China's first five-year plan, formulated with Soviet help, was a resounding success. China surpassed all of these targets by 1957, the plan's final year. Will China's 12th plan, spanning 2011 to 2015, fare as well? The full blueprint will not be released until next spring. But a communiqué on October 18th offered a few early glimpses of its contents.

The new plan looks set to pick up where the previous one left off. That is not as conservative as it sounds, because the 11th plan (2006-10) was daring in conception, if not always in implementation. By 2006, of course, the share of GDP governed by Soviet-style central planning had shrunk dramatically. The 11th plan even dropped the term, replacing the word *jihua*, used to describe previous plans, with the term *guihua*, suggesting a long-range programme or strategy.

The 11th plan also introduced a distinction between hard targets (for energy efficiency, pollution and population) that officials were obliged to meet, and more indicative targets (for growth, employment and other things) that the economy was expected to meet of its own accord. And it replaced the single-minded pursuit of growth with "all-round" development, hoping to contain pollution and arrest widening economic inequalities.

China's leaders still count on "relatively rapid" growth to keep the social peace. Their last plan envisaged annual growth of 7.5%. That proved hugely bearish. In fact, GDP has grown by over 10% a year on average since 2006 (see chart). It expanded by "only" 9.6% in the year to the third quarter, according to figures released this week. But it is already showing signs of quickening again, prompting the central bank on October 19th to lift interest rates, by 0.25 percentage points, for the first time since 2007.

Thanks to its irrepressible growth, China's national income is bigger than its planners expected. But it is not distributed as they would like. In their communiqué, party leaders promised to give more of the pie to wage-earners. That would help more "harmonious labour relations", which were rattled by strikes and suicides over the summer, and also boost consumption, which accounted for 35.1% of GDP last year compared with about 50% in South Korea at a similar stage of development.

Promoting consumption has been a goal of China's leaders since 2004. In the years since, it has fallen as a share of GDP. It may be that China's modern, strategic planning is falling foul of the remnants of old-fashioned, central planning. The kind of heavy industries promoted in China's first five-year plan, for example, still enjoy tremendous privileges. They are dominated by state-owned enterprises, which can count on cheap loans and energy from China's state-owned banks and utilities.

According to the European Union Chamber of Commerce in China, the weight of these industries in China's economy almost tripled between 2003 and 2008. China's leaders now worry about overcapacity in a number of sectors, from steel, cement and aluminium to crushed soyabeans. Because heavy industry is capital-intensive, it creates few jobs, which is



11/4/2010

China's economy: A new epic | The Eco...

one reason why wages have not kept pace with GDP. Heavy industry also tends to be dirty and thirsty, jeopardising China's increasingly stringent environmental targets. In carrying out the last plan, the communiqué said, China's leaders had "composed a new epic". But in the rapid expansion of heavy industry, China's 11th-plan period was alarmingly reminiscent of its first.

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