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China's Latest Five-Year Plan
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CAMBRIDGE – I was in Beijing last month when the Chinese government released a preliminary summary of its 13th Five-Year Plan. This is an important document for understanding where China is headed in the 2016-2020 period. And yet China's five-year plans just aren't what they used to be.

The Chinese economy is no longer the state-owned and state-managed system that it was when I first visited more than 30 years ago. In those days, there was no private enterprise, and it was illegal for anyone but the government or a state-owned enterprise to hire an employee. Today, only 20% of employees in China work for SOEs. The rest of the Chinese economy is dynamic, decentralized, and privately owned. American multinational companies and other foreign firms are an important part of the economic scene.

So the five-year plan is no longer a detailed blueprint for industrial expansion; rather, it provides a picture of what the Chinese leadership hopes will be achieved under the government's general guidance. The aim is to improve the overall standard of living – achieving moderately strong growth, raising the share of consumption in GDP, and improving air and water quality – through a combination of Western-style monetary and fiscal policies, state-financed infrastructure development, and changes in environmental and other regulations.

One of the key goals was set back in 2010: doubling real GDP and real personal incomes by 2020. The government now officially estimates that achieving this target will require average annual GDP growth of 6.5% over the next five years. Given that China is still a relatively poor country, with per capita GDP only about 25% of the level in the United States, maintaining such a rapid pace of growth certainly is not impossible.

But many observers are skeptical about China's official GDP data and dubious of its ability to sustain 6.5% growth. That skepticism reflects a variety of recent news indicating weak output in parts of the Chinese economy – for example, headlines about reduced industrial production, declines in manufacturing exports, and shutdowns in particular industries.

Although I cannot claim to be an expert on Chinese economic statistics, I think these headlines are a natural but misleading consequence of the authorities' intentional effort to shift China's economic structure away from industrial expansion and exports toward greater reliance on services and household consumption. Chinese economic experts say that the output of the service sector is growing fast enough to offset growth in industrial output of 5% or even less, thereby achieving the current overall growth rate of about 7%.

But even if annual growth really is now at about 7%, achieving a 6.5% rate for the next five years will be a challenge, for at least four reasons. For starters, China's shift from heavy industry to services implies less output per worker and less control by the central government. At the same time, the environmental policies that are urgently needed to improve air and water quality absorb resources and impede growth. And President Xi Jinping's crackdown on corruption has had the side effect of delaying decision-making and inhibiting new projects.

Finally, and perhaps most important, the population of working-age individuals is no longer growing, a result of the 35-year-long policy of restricting most families to no more than one child. Although the government recently replaced the one-child limit with a two-child limit, it will be nearly two decades before that change can increase the size of the working-age population. Until then, increasing the growth rate of the effective labor force requires shifting workers from low-productivity employment in agriculture to the urban labor force.

The Chinese government is therefore considering several policies to increase the pace of urbanization, including the creation of several new large cities to accommodate some of the 600 million individuals who still live in rural China. Similarly, the government will phase out the hukou system of residency permits that now prevents migrants to the cities from obtaining full health care and education benefits.

A third policy change aimed at promoting urbanization will be to allow Chinese farmers to sell their land rights at realistic market prices, thereby increasing their incentive to cash out and move. And the introduction of a Western-style rental market will allow families without substantial cash or parental support to move to cities (where families currently must purchase

their apartments).

Not all of these policies have to succeed in order to keep the urban labor force expanding in the next five years. If enough of them succeed well enough, 6.5% growth over the next few years might not be out of reach.

China also has a variety of short-run problems. There is excess capacity in some heavy industries and in residential real-estate markets in some second- and third-tier cities. Local governments have significant debts that were incurred at the request of the central government in 2007 and 2008 in order to avoid a serious economic downturn. And there is a large volume of bad loans in some state-owned banks and in the shadow banking system.

Fortunately, the authorities recognize these problems and have strategies – and, more important, the resources – to deal with them. China's economy will not grow as strongly over the next five years as it did in past decades. But if the goals set out in the 13th Five-Year Plan are realized, the Chinese people can look forward to a period of rising consumer spending and an improving standard of living.

Read more at https://www.project-syndicate.org/commentary/china-new-five-year-plan-by-martin-feldstein-2015-11#Gi9dVpBKpMTluSIY.99

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