China's new five-year plan: a mixture of futile hopes and false promises

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The most significant item approved at the recently concluded National People's Congress (NPC) in Beijing was China's eleventh "Five-Year Plan" for the period 2006-2010.

For months prior to the NPC, government officials, academics and the state-run press repeatedly stressed the importance of this "Five-Year Plan". They argued that it will transform China from a society of low-paid labour, rural poverty, anarchic production and severe pollution into one that is "harmonious", "consumer-led" and "environmentally-friendly".

Chinese Premier Wen Jiabao devoted a large portion of the opening report to the NPC on March 5 to introducing the concepts underpinning the "Five-Year Plan", which he claimed would lay the economic basis for Beijing's promises to assist workers and rural poor.

When the outline was released the following day, however, the gulf between rhetoric and reality was evident. The plan stressed only two main economic targets: to double per capita gross domestic product by 2010, and to reduce energy consumption per unit of economic output by 20 percent over the same period.

Most of the economic targets were advisory, if not completely speculative. The proposals in sections dealing with unemployment, the use of arable land and industrial priorities were categorised as "projections" or recommendations. The document reads like a gospel promising a bright future, rather than a program of planned economic development.

The National Development and Reform Commission (NDRC), which drafted the "Five-Year Plan", admitted that, even compared to previous plans, this one had had been pared back to give "greater play to market forces".

The NDRC officials told the conference that the only remaining "obligatory" targets were for social spending, such as education and health care. Specific output quotas for industries such as auto and steel have been completely abandoned. Fan Jianping, director of the economic forecasting department of the State Information Centre, said the change was to distinguish "which area is the responsibility of the government and which should be left to the market."

In fact, the capitalist market now determines every aspect of economic activity in China. Even the "obligatory" targets for education and health care are nothing more than empty promises designed to dampen widespread popular anger. Increasingly these services are only available to those who can afford to pay for private medicine and private schools.

In the 1950s, China's "Five-Year Plan" was an imitation of Soviet planning methods used to regulate a state-controlled, shut-in economy. While each plan was declared to be "socialist", it was not so different from the methods of national economic regulation used by bourgeois regimes in countries such as India and Turkey. Even the rival, anti-communist Kuomintang dictatorship in Taiwan had its own "four-year plan" in the 1950s and 1960s.

None of this had anything to do with genuine socialist planning, which involves the rational organisation of economic processes to fulfill the social needs of humanity as a whole. It requires the democratic participation of the producers and consumers to properly organise the productive forces, not simply within the borders of one country, but across the globe.

As in the former Soviet Union, planning in China served a bureaucratic apparatus whose interests were diametrically opposed to those of ordinary working people. The bureaucratic methods involved the top-down imposition of quotas, which inevitably led to gross shortages and surpluses, poor quality goods and widespread corruption as managers bartered for raw materials and machinery.

Cut off from the technical and material resources of the world economy, the autarkic Chinese economy fell further behind. With the development of globalised production in the 1970s, the Beijing bureaucracy, which had rejected the struggle for world socialism decades before, turned to integrate China into world capitalism. In the early 1990s, Deng Xiaoping justified the acceleration of "market reform", declaring that "socialism has the market" just as "capitalism has planning".

Today, the real implications of Beijing's absurdly named "socialist market economy" are obvious. As China has become a cheap labour platform for global capital, its economic fate is determined far more in corporate boardrooms overseas than by Beijing officials. The state's economic role has been reduced to establishing the necessary conditions to attract foreign investors, above all to discipline the working class.

The once powerful Chinese planning bureaucracy has been reduced to a mere advisory body. Its main task, like the various economic advisers to capitalist politicians at election time, is as a purveyor of false hopes for the masses and promises of "good economic management" for business. As NDRC official Zhu Zhixin put it: "In order to change the old impression that a plan is of no more use than some kind of drawing that you hang on your wall, we have put a great deal of preparation into the implementation of this plan."

The NDRC is still trying to recover its reputation as an effective business manager after the last "Five-Year Plan" released in 2000. The body projected an annual average growth rate of 7 percent, but it blew out to 9 percent. Coal output was nearly double what was planned and power generation was 20 percent higher. For 2005, amid much discussion of the dangers of economic overheating, Beijing set a growth target of 8 percent, but the economy expanded by 9.9 percent.

For this year, Premier Wen has again "set" the target at 8 percent to control the rampant investment bubbles, stabilise inflation at 3 percent and to reduce the country's hugely inefficient energy consumption. Beijing has also set a target for investment growth in factories and infrastructure at 18 percent, down from 27.5 percent last year. Trade expansion was fixed at 15 percent—down from 23.2 percent in 2005.

However, none of these "targets" have much meaning. For instance, the World Bank's projection for China's economic growth for 2006 is 9.2 percent. Massive excess capacity is building up in major industries like auto, steel and textiles, threatening deflation, corporate bankruptcies and jobs losses. "Production gluts are increasingly severe, prices of related goods are falling and inventories are rising. Business profits are shrinking, losses are growing and latent financial risks are increasing," Premier Wen lamented.

For example, despite measures to slow production, China's output of steel last year was 348 million tonnes—almost four times US output and far ahead of domestic demand in China.

The new "Five-Year Plan" also promotes a "green GDP". But as local governments compete with each other for investment by loosening the existing limited environmental regulations, the present highly destructive trends are unlikely to be reversed.

According to official statistics, energy consumption in China per $US10,000 of GDP is 3.4 times higher than the world's average. The volume of carbon dioxide discharge per unit of GDP in China is 68 times that of Japan, 26 times that of Germany and six times that of the US.

It was on the basis of this anarchic economic growth that the Chinese premier promised a list of measures to help the poor. Increased public spending was made possible because of a 19.8 percent increase of government revenues in 2005. However, if a recession or a financial crisis erupts in China, these limited social promises will quickly disappear.

The main slogan of the latest "Five-Year Plan" is to shift China's economic dependence on exports and foreign investment to domestic demand and consumption. With growing protectionist threats from US and Europe against Chinese exports, Beijing is desperately seeking to boost the internal market.

Andy Xie, chief economist of Morgan Stanley Asia, pointed to the dangers: "Rising internal tension over inequality and external friction over China's trade success suggests that China's government-led and export/investment-driven development model may be reaching its limits. It is in China's interests to change the model before the tension reaches the point of triggering an economic crisis."

Xie urged Beijing to increase spending to support rural incomes to 3 percent of the GDP by 2010, up from the current 1.6 percent. Meanwhile, minimum wages, especially among rural migrant workers, should be tripled over the same period to boost domestic demand, he advised.

Whatever "model" it chooses, Beijing has very few levers to alter the course of the economy. Huge exports and large inflows of foreign investment are the main economic driving forces, creating work for tens of millions of rural migrants, laid-off workers and school graduates every year. The money remitted by rural migrant workers is the main source of income for many rural households.

Any increase in wages will erode China's advantage in low-cost manufacturing, which is already struggling with overcapacity and rising commodity prices. Without booming exports generating large foreign currency reserves and corporate tax revenues, the state banking system, which is struggling with huge bad debts, will go further into the red and state spending will have to be slashed.

The reality is that the Beijing bureaucracy has no control over the market forces it has unleashed. Its only "plan" is to try to keep the process going and hope that it will not produce an economic catastrophe or a social explosion or both.