Credit Where Credit Is Due: Celebrating China's 13th Five-Year Plan

Apr. 04, 2016
By Salvatore Babones

China gets a lot of bad press these days. Building islands in the South China Sea, abducting booksellers from Hong Kong, supporting North Korea, etc. It seems no matter what China does, someone doesn't like it. Throw in all the bad economic news that's been piling up for almost a year now, and you might think China was about to collapse in an avalanche of crises and turmoil (Shambaugh, 2016).

But amidst all the gloom and doom there is some very good news coming out of China: the 13th Five-Year Plan. In most countries a government economic plan would not qualify as a bona fide news item, but China is different. China's five-year plans are more like blueprints than mere strategies. In China, what gets planned gets done. People both inside and outside China take these plans very seriously.

China's 13th Five-Year Plan includes a healthy dose of political platitude. But it also includes concrete plans for expressways, airports, railways, and urban mass transit. Just as important, it includes an extra USD 93 billion for poverty alleviation. A new vocational school system will be set up, providing desperately needed skills education to poor and working people. And the much-anticipated two-child policy will finally come into effect (Babones, November 12, 2015).

All this is cause for celebration. Facing slower economic growth (Babones, February 19, 2016) and rising budget deficits (Babones, January 13, 2016), China may find it difficult to pay for all of these initiatives, but even to conceive of them is an accomplishment. Other middle income countries like Brazil and Mexico have no such grand ambitions to transform their societies for the better. China may or may not succeed in building the moderately prosperous society it so desperately wants (Babones, March 5, 2016), but at least it is moving in the right direction.

Infrastructure for Growth

Everyone knows that China excels at building infrastructure, but few people realize that China still has less infrastructure than most other middle income countries. This is true whether China’s infrastructure is measured on a per capita or square kilometer basis. Data from the CIA World Factbook show that China still has fewer (though larger) airports than Brazil and about the same mileage of paved roads per capita as Mexico. Comparisons with eastern Europe are even worse, and China's levels of infrastructure pale by comparison to western Europe and the United States.

Infrastructure is the key to economic productivity and thus to economic growth. A country must build infrastructure for the economy it wants to have tomorrow, not for the economy it has today. China’s amazing high speed rail (HSR) network proved that.

When China first started upgrading its rail network in the 1990s many people thought that China was merely throwing money at a wasteful prestige project, building the world's largest white elephant to the inefficiency of state-led development. Today HSR is a vital element of China's transportation network, serving nearly 1 billion passengers a year. The majority of passengers are well-off by
Chinese standards but still of modest means (Ollivier et al., 2015). The trains are filled by millions of ordinary people meeting everyday needs, not by party cadres or rich joyriders.

Of course, China now has the largest HSR network in the world (“A review of”, 2013), well ahead of the networks of other leaders like Japan, Spain, and France. In fact, China's HSR network is larger than all three of these networks put together. But considering that China is roughly six times the combined size and population of Japan, Spain, and France, there is plenty of room for expansion. If China wants to converge with these countries in GDP per capita, it first has to build the infrastructure to support higher productivity.

So it is good to read that China plans to add another 10,000 km to its HSR network in the next five years to bring the total to 30,000 km nationwide (“Infrastructure projects planned”, 2016). China is also building 50 new airports and 30,000 km of new expressways. These numbers may sound staggering, but expressed in either per capita or per land area terms they are ambitious but reasonable. And they are absolutely necessary. You can't run a "moderately prosperous society" without moderately acceptable infrastructure. In this five-year plan, China is building the infrastructure it needs. Debates about overcapacity can wait until the 14th Five-Year Plan.

The Human Face of Development

An interesting item in the five-year plan is the promise that China will build roads to connect every village in the country by 2020. The government has also pledged to operate minibus services to every village, no matter how small. For most people living in rich countries it is unbelievable that there are still many rural areas in China with no roads. Even more unbelievable is the fact that China plans to offer public transportation to isolated rural communities.

Potentially more controversial are China's plans to simply close down many of these communities by encouraging their residents to move out. The bulk of the new poverty alleviation spending is earmarked for incentivizing people to leave remote rural areas (“More Chinese farmers”, 2016). The persistence of severe rural poverty in rich countries like Australia and Canada shows the wisdom of China's plan, but opportunities for abuse are rife. China will have to be careful to ensure that corrupt local officials do not force people to move and pocket the money themselves.

There will also be challenges for those left behind, too poor or too disabled to move to improved accommodations even with government help. Development assistance is promised to support people who choose to remain (“China sets to”, 2016), but may not be forthcoming. It seems more likely that the government’s promise to provide paved roads and bus service to every village is conditional on the closure of the most remote, difficult to reach settlements.

Still, the voluntary relocation of the remote rural poor to more developed towns and cities where they and their children can receive adequate government services is a reasonable technocratic solution to a difficult problem. If even Australia and Canada struggle to provide adequate education, housing, and healthcare in remote settlements, it is unreasonable to expect China to do so with its much more constrained resources.

The Challenge Ahead

China's 13th Five-Year Plan covering the years 2016-2020 has set incredibly ambitious goals for the country, its government, and its people. Given that China is a one-party state, the Communist Party
of China must bear a large degree of responsibility for making sure that those goals are met. But as the Party has admitted more and more of China’s ultra-rich into its ranks (Riley, 2015), its commitment to broad social policy goals might come into question.

The biggest challenge China faces in realizing its goals may be fiscal: finding the money to pay for them (Babones, August 16, 2015). In addition to its laudable social goals, the Five-Year Plan also includes major tax cuts for corporations and individuals (Mu, 2016). It is hard to square these with the huge spending plans already announced, never mind the increasing healthcare and pensions costs associated with China’s aging population.

China will soon face an unavoidable clash of priorities. As America found out in the 1980s, tax cuts do not pay for themselves by boosting growth. Tax cuts starve the government of revenue. We can debate whether tax cuts are good or bad for countries in Europe and North America, where government revenue soaks up 40 percent to 50 percent of GDP. In a country like China, where tax revenues are stuck at 20 percent of GDP, there should be no debate. China needs higher taxes.

There will always be many reasons to criticize China (or any country). But we should also celebrate successes and give credit where credit is due. China’s 13th Five-Year Plan is the most progressive social policy plan in the developing world and the most ambitious in the world, full stop. Even if China meets only half of its goals, it will be an unprecedented accomplishment. If it meets all of them, China may become a moderately prosperous society after all — and sooner than anyone thinks.

References


