



Chinese Five Year Plans: An Economic Catalyst?

LIEUTENANT COLONEL TROY GALLOWAY

China's embrace of globalization in a measured manner is a direct result of the communist nation's reliance on five-year national development plans to guide its growth and economic reform. This gradualist approach has worked well in moving the economy towards reform while avoiding significant risk.¹ This short essay will discuss the linkages that exist between the significant Chinese economic success of the last 30 years and the communist five-year plans that have outlined many of the nation's economic reforms.

Perfecting Soviet-style Marxist Communism with great emphasis on major industrial development was the primary aim of the first Chinese five-year plan (1953-1957).² The Communist economic ideology of that era proffered that industrialization and economic development should be heavily weighted towards heavy industry, fuels, electric power, iron and steel, machinery manufacturing, and chemicals.³ This first five-year economic plan also established national goals that would, in most cases, at least double national output in these heavy industry categories. At the time, private industry accounted for only 25 percent of total industrial productivity while state-controlled industry accounted for the remaining 75 percent of the nation's productivity. One of the goals of this first plan was to further reduce the



private share of national productivity by placing many of these private industries under joint private-state management rather than to completely nationalize them outright.⁴ It is interesting to note, and perhaps somewhat predictive of future five-year plans, that even this first plan acknowledged and tolerated one of the primary differences between the Chinese and Soviet versions of Communism. Soviet Communism nationalized and collectivized nearly all economic activity while the Chinese model, even in the earlier days of Chinese Communism, tolerated some private economic activity.

The more modern versions of the Chinese five-year plans are intended to outline national economic and social development goals with special emphasis on arranging key infrastructure projects, managing the distribution of productive forces, and analyzing the private sector contributions to the national economy.⁵ These plans usually also contain national production goals and attempt to establish a common direction for the national economy. The 5th five-year plan (1976-1980) contained many of these same, seemingly standard, and almost clichéd development goals and infrastructure projects.

1. Eswar Prasad, "The Chinese Growth Experience: A Golden Tapestry," *The Brookings Institution*, <http://www.brookings.edu> (accessed April 13, 2011).
2. Theodore Shabad, "Communist China's Five Year Plan," *Far Eastern Survey*, (December 1955): 189, in JSTOR (accessed April 14, 2011).
3. Ibid.
4. Ibid.
5. China.org, <http://www.china.org> (accessed April 13, 2011).

LTC(P) Troy Galloway is a member of the Army War College class of 2011 and is scheduled to take command of the 142d Fires Brigade, Arkansas Army National Guard, in October 2011.



Deng Xiaoping

In somewhat different fashion, the 5th five-year plan was created as part of the ten-year national economic development plan (1976-1985). Two key differences for the 5th five-year plan are Deng Xiaoping's introduction of China's one child policy and the introduction of market reforms that initiated a gradual movement away from the Soviet-style command economy.⁶ Movement towards quasi-private ownership of more light industry and de-collectivization of much of the agricultural sector were key reform initiatives. These initial market reforms led to greater than expected levels of growth, particularly in agricultural productivity. Beginning with the 5th five-year plan and with every subsequent five-year plan, central economic planning focused more on administrative and legal frameworks to guide economic reform.

Maoist China already functioned under a more decentralized economic system than did the Soviet-bloc nations of Eastern Europe.⁷ This familiarization with some aspects of freer markets certainly aided the reform agenda of the post-Mao era and hastened some of the productivity gains realized so early on in the reformed markets. Additionally, with the economic reforms introduced in the 5th five-year plan, a greater level of accountability was levied upon local leaders who were more accountable for local economic outcomes. Under the Maoist centralized economy it was all too easy for leaders at all levels to blame failures on the central government.⁸ Economic and fiscal decentralization empowered local governments and local leaders. At the same time, these local governments and leaders were provided a roadmap in the form of a national five-year economic plan to help guide decision making. It is a system that begins to work well for the Chinese economy. The decentralization of economic decision making proves to be one of the most effective means to stimulate economic growth in the reform era.⁹ These reforms will ultimately prove to be watershed events in the gradual opening of the Chinese economy.

In the interim period between China's adoption of economic reforms contained in the 5th five-year plan and China's recent adoption of the 12th five-year plan (2011-2015), the nation has tended to follow its plans. The 9th five-year plan (1996-2000) ushered in historic ownership transition from an era of state-owned enterprise and the corporatization of China's increasingly market driven economy. Because of political, ideological, and economic reasons, privatization was long held as taboo. In reality a *de facto* privatization has been underway since the mid-1980's.¹⁰ This form of privatization provides a framework through which assets are transferred from the state into the private sector and reflects the somewhat cautious and gradualist approach preferred by the communist party leadership.¹¹ The transition to a more market driven economy, with an increasing percentage of assets in private ownership and shares of these companies more frequently publicly traded, is evidenced in the growth of the stock market. In 1992 the market attracted only 2.2 million investors. By 2002 the number of stock market investors had grown to nearly 70 million.¹²

Chinese economic reform and trade liberalization, however metered and however gradual the pace, are necessary to placate a growing population that increasingly desires the trappings typically associated with a western style quality of life. Stability is China's ultimate goal. This includes economic stability, political stability, and social stability, which are all increasingly interdependent. This interdependence and desire for stability is reflected in the 12th five-year plan that was approved by China's National People's Congress earlier this year.

Like several of the predecessor plans, the 12th five-year plan proposes sea change of sorts in Chinese economic policy. The 5th five-year plan introduced economic reform and opening up of the communist economic system. The 9th five-year plan ushered in greater levels of private ownership and expanded corporate enterprises. The 12th five-year plan suggests a shift in the economic growth structure from the powerful export and investment led economy

6. Lauren Mack, "Chinese History: Fifth Five Year Plan (1976-1980)," *About.com*, <http://chineseculture.about.com>

7. Gang Guo, "Retrospective Economic Accountability under Authoritarianism," *Political Research Quarterly* 60, no. 3 (Fall 2007): 380, in JSTOR (accessed April 14, 2011).

8. *Ibid.*

9. *Ibid.*

10. Shu Y. Ma, "China's Privatization: From Gradualism to Shock Therapy?," *Asian Survey* 48, no. 2 (March/April 2008): 199, in JSTOR (accessed April 14, 2011).

11. *Ibid.*

12. *Ibid.*

to encouraging more domestic consumption from the nearly 1.3 billion consumers that call China home.¹³ This promises to be a significant challenge in a society where most consumers save 25 to 50 percent of their income to hedge against economic uncertainty.¹⁴ If successful, this plan promises to boost domestic consumption which would help to set the Chinese economy on a path towards more predictable sustained growth. The Chinese government intends to limit GDP growth to 7 percent annually during the five year period in an effort to tame inflation brought on, in part, by huge government infrastructure investment over the past few years.¹⁵ Additionally, Premier Wen Jiabao included the construction of 36 million affordable housing units to help provide homes for the growing middle class.¹⁶ The 12th five-year plan



Chinese Premier Wen Jiabao with President Barack Obama, September 23, 2010

appears to target those areas of concern that, if unchecked, could lead to political and social unrest. In much the same manner that previous five-year plans were oriented towards reform to improve the economic output of the nation as a whole, this five-year plan seems more tailored to improving the lives of ordinary Chinese citizens. It appears that Wen Jiabao is banking on the latest economic reforms to continue the Chinese gradualist approach that has worked so well for the past 30 years. China has much more control over what goes on inside China. A stable economy for a stable China is Premier Jiabao's primary goal with the latest reforms. Revving up China's internal consumption engine just might be the elixir to help tame the unpredictable, yet cyclical nature of the global economy that now impacts China more than at any other point in its history.

China's five-year plans and the gradual economic reforms spawned from those plans continue to posture the communist nation for future economic successes. This gradualist approach allows the old systems to coexist with the new ones until the former is ready to completely take over the latter.¹⁷ This approach serves as further evidence of the significant effort the Chinese government places in reducing the risks associated with change of this magnitude in the world's most populous nation. There is no question that China must continue to liberalize its economy to continue to compete on the world stage. This does not detract from the tremendous successes that are in large part due to the communist nation's ability to centrally plan economic goals and initiatives through the creation and execution of five-year plans. These plans have helped cast China as the economic success story of the 21st century and will continue to help China prepare for the uncertainties of the now very global economy. One thing is for certain, as the size of China's capital markets expand, more capital products will appear, and the prosperity of China's markets will become more sustainable.¹⁸ The gradualist nature of the Chinese five-year plans has helped encourage these conditions and the new five-year plan seems just bold enough to continue the tradition.

This and other CSL publications may be accessed for free through the USAWC/CSL web site at: <http://www.csl.army.mil>.

The views expressed in this report are those of the author and do not necessarily reflect official policy or position of the United States Army War College, the Department of the Army, the Department of Defense, or any other Department or Agency within the U.S. Government. This report is cleared for public release; distribution is unlimited.

13. Stephen Roach, "A Giant Step Towards Solutions," *China Daily*, <http://europe.chinadaily.com> (accessed April 14, 2011).

14. Helen Wang, "Will the Chinese Government Deliver on the new Five-Year Plan?," <http://helenwang.net/2011/03> (accessed April 13, 2011).

15. Ibid.

16. Ibid.

17. Shu Y. Ma, "China's Privatization," 212.

18. Shu Y. Ma, "China's Privatization," 213.