



By: Stephen S. Roach

New Chinese Five-Year Plan - More of the Same



The Chinese planning season is in full swing. Ahead of the formal release of the **15th Five-Year Plan** (running from 2026 to 2030) in March 2026, early signs coming out of the just-completed **Fourth Plenum of the Communist Party** of China suggest that it will be more of the same: a focus on continuing China's extraordinary industrial and technological ascendancy, driven by what Chinese President Xi Jinping has called "new productive forces."

That would be a mistake in the following sense: China's techno-industrial prowess is so well established that it is unnecessary to dwell on the obvious.

The planning exercise should instead aim to tackle the country's most daunting challenge: a long-awaited consumer-led rebalancing.

To that end, the 15th Five-Year Plan should set an explicit target of boosting **household consumption** as a share of GDP from its latest reading of nearly 40% to 50% by 2035.

By now, the debate over rebalancing has dragged on for decades. It was first raised in March 2007 by former Premier Wen Jiabao as the second of his now-famous "**four uns**" – unstable, unbalanced, uncoordinated, and unsustainable – that, he argued, jeopardized the seemingly strong Chinese economy.

The need to find new sources of growth

Of course, "unbalanced" is only an elliptical reference to the Chinese consumer.

But in the context of all four uns, it raises what has since become the most important structural issue for the Chinese economy: the need to find new sources of growth.

While Chinese authorities have been especially adept at addressing the first "un" (instability), as demonstrated during the global financial crisis of 2008-09 and the COVID-19 pandemic, the fourth "un" is where the rubber meets the road for the political promise of Xi's **Chinese**

Dream.

If its economic growth is unsustainable, China will fall short of its aspirational goal of becoming a "**great modern socialist country**," with living standards similar to advanced economies, by mid-century.

China's seemingly resilient export sector will almost surely be buffeted by rising protectionism

According to my calculations, that will require China's real per capita **GDP growth** to reach 5.75% per year over the 2030-49 period – a significant pickup from the 4.25% pace of 2022-30, but well short of the 8.4% average between 1981 and 2021.

Achieving this won't be easy, because many of China's most powerful growth engines are tapped out.

The beleaguered property sector is likely to remain under downward pressure for years to come.

China's seemingly resilient export sector will almost surely be buffeted by rising protectionism. Even all-powerful **fixed-asset investment**, which currently accounts for around 40% of Chinese GDP, is reaching its limit.

Consumer demand

By process of elimination, that puts the onus on the Chinese consumer to fill the gap.

I have been hammering home this point since Wen first articulated the four uns, and others have come to the same conclusion.

But while the Chinese government always mentions boosting consumer demand when discussing its economic challenges, it comes alongside a raft of other goals, from spurring employment growth and addressing income inequality to developing alternative energy and

indigenous innovation.

What an unbalanced Chinese economy actually needs is a single-minded focus on invigorating the Chinese consumer's role as a more powerful driver of growth.

I do not mean to suggest that China should walk away from all that it has accomplished over the past 50 years, especially its recent technological advances.

Nor am I suggesting that China revert to its central-planning legacy in an attempt to steer its economy in a different direction.

China can walk and chew gum at the same time – it can both plan and target

To me, a target and a plan are two different things: A plan provides a broad strategic framework, whereas a target specifies a numerical objective that is consistent with that plan. China can walk and chew gum at the same time – it can both plan and target.

Admittedly, a household consumption-to-GDP ratio of 50% would be a tough target to hit; my estimates suggest that it would require household consumption to grow twice as fast as the rest of the Chinese economy.

That outcome may seem unlikely, but it is doable, given the weakness expected in housing, exports, and fixed-asset investment.

China's consumption target should be viewed as akin to price-stability or full-employment goals in the West. We call them "mandates," but that's just another word for targets.

Setting such targets is useful for the management of any economy, providing focus and encouraging accountability.

Household-consumption target

The bottom line is that the time has come for

China to establish an explicit household-consumption target.

How Chinese leaders shape their policies to hit this target is of course up to them.



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I have long favored strengthening the social-safety net to reduce high levels of fear-driven precautionary saving in a rapidly aging society.

Others have focused on reforming the antiquated hukou (residency permit) system, especially for migrant workers, raising the retirement age, developing the "silver economy," and, the government's recent favorite, implementing trade-in campaigns for consumer durable goods.

At this point, I care less about the debate over the most effective policies and more about the commitment to a specific rebalancing goal.

Over the years, I have learned that China excels in tackling such challenges. If the 15th Five-Year Plan were to set a clear target of raising household consumption to 50% of GDP by 2035, I am confident that Chinese policymakers would then settle on the right mix of pro-consumption measures.

A new target would go a long way toward forcing Chinese leaders to resolve what has become a tedious and now increasingly urgent debate.

As Wen presciently warned almost 19 years ago, failure to rebalance the Chinese economy is not a sustainable option.

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