

## Sustained Robust Growth Challenges Beijing

Gains Spur Leaders

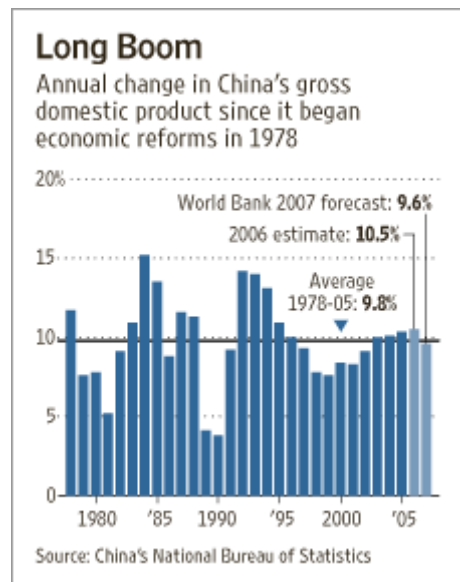
To Address Gap

Between Rich, Poor

By ANDREW BATSON

By delivering another year of double-digit growth, China is managing to sustain a surprisingly fast economic expansion. That success is prompting the country's leaders to try to better manage the economy's excesses and ensure that the growth's benefits are more widely spread through society.

It now looks certain that China's economy has expanded by 10% or more in real terms for four straight years. The government has issued a preliminary estimate of 10.5% for economic growth in 2006. The National Bureau of Statistics is scheduled to release a more detailed account of the nation's economic performance for the year tomorrow, but isn't likely to revise that figure substantially.



If current growth rates continue, China could overtake Germany as the world's third-largest national economy, with annual output of more than \$3 trillion, as early as 2008. China passed the \$2 trillion mark in 2005, when it replaced the United Kingdom as the fourth-largest economy.

By comparison, the world's advanced economies together probably grew about 3% last year.

Many observers see in China the 21st-century counterpart to the emergence of the U.S. and Germany as industrial powers in the early part of the 20th century, and of Japan in the latter half.

By shifting millions of people out of agriculture and into manufacturing, and by investing to build the infrastructure of an advanced economy, all of those countries, at different times, managed long periods of sustained, fast growth. China gets the benefit of following a path the others have already laid down.

"China is bursting at the seams. It is growing much faster than any emerging economy has, ever," said Carl Weinberg, chief economist of High Frequency Economics. "What that tells us is that it's easier to develop in a developed world. It's easier to modernize when all the countries around you are already modernized."

China's four-year run could even be considered unexceptional for the country: Its economy has grown an average of about 9.8% a year since it began market reforms in 1978. What has changed in more recent times is that the rate of growth has steadied from year to year, making the economy less volatile. That can be attributed in part to better policy making, as well as the increasing size of the private sector, which is less prone to the boom-and-bust investment cycles of the planned economy. In addition, skeptics believe China's official economic statistics understate actual volatility.

From a longer-term perspective, the past couple of years have seen a cyclical upswing to slightly above-average growth rates for China, helped by a surge in exports and investment. Many analysts expect China to face something of a cyclical downswing over the next couple of years -- but in the Chinese context, that would mean annual growth rates that are perhaps closer to 9% than 10%.

The combination of large absolute size and fast growth has made China attractive to businesspeople and investors world-wide. In just a decade, China has nearly tripled its per-capita gross domestic product, a rough measure of the size of the economic pie available to each person. Yet, that figure is still less than \$2,000, compared with more than \$42,000 in the U.S. and more than \$35,000 in Japan. China is far from a rich country, especially because its rural population -- which accounts for some three-quarters of the nation -- has badly lagged behind the gains in its more prosperous cities.

"Even though China's economy is already among the largest in the world, China has 1.3 billion people and in terms of per-capita GDP does not even rank in the top 100," Premier Wen Jiabao said in a speech this month. "Economic and social development is very uneven. So for a fairly long time into the future, development will still be our central task."

Rural incomes are still growing more slowly than in the country as a whole, and there is evidence some of the poorest are becoming even worse off.

Rather than focusing on growth alone, policy makers are now trying to achieve a more equitable distribution of resources. For instance, the government has canceled school fees for children in rural areas, and has also promised to expand the coverage of basic medical-insurance and social-welfare plans -- which now focus primarily on the cities -- to more rural residents.