China's 14th Five Year Plan

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- China's 14th FYP sets modest targets while focusing on structural reforms
- Science and technology development remain top priorities for Beijing
- China favours holistic approach to renewable energies instead of specific emission targets

Summary

Delegates to China's National People's Congress passed the 14th Five-Year Plan (FYP) and economic long-term strategy out to 2035 [1] with 99% support on 11 March, rounding out this year's 'two sessions' political meetings in Beijing.

As is clear from the title, the FYP sets out the Chinese government's principal economic targets and policy priorities for the next five years. The 142-page long document contains 19 chapters, covering everything from advanced manufacturing to AI, from transport to toilets, and from the BRI to blockchain. The plan also outlines China's foreign policy priorities, while providing an indication for local governments as to which sort of investment projects will get the green light in future.

By contrast, the 2035 long-term strategy is less specific and merely states China's general policy goals for the next fifteen years. Accordingly, the strategy 'hopes' that China's modernisation will be complete and that the country will have achieved middle-income status by then. It further assumes that China's greenhouse gas emissions will have peaked by the middle of the next decade.

Yet what's missing in both the 14th FYP and the 2035 strategy is as significant as what is in them. For example, Xi Jinping's remarks following last year's Fifth Plenum regarding China's ability to double the size of its economy over the next 15 years are nowhere to be found. Nor do the 'demand-side reforms' that were discussed at the party's Central Economic Work Conference in December appear in the text.

The party's new 'Dual Circulation Theory' does figure in the 14th FYP, but its focus has clearly shifted back towards the strengthening of domestic consumption. The 'internal circle' remains the dominant concern for policy makers, while China's ballooning trade surplus appears now to be seen as a subordinate issue, at least for the next few years.

Overall, the 14th FYP sets only modest targets and focuses instead on governance reforms. Instead of just becoming ever bigger, the government clearly wants China to become a more modern, greener, more efficient, and better regulated country by 2035.

Key Indicators

Each of China's previous five-year plans has come with a list of key indicators which highlight the Chinese government's priorities and ambitions. The 14th FYP has 20 such indicators, five less than the last FYP. Besides the target for the eradication of extreme poverty reduction (which Beijing now claims to have achieved), those for forestation, air quality, and urban household registration have been dropped since the last FYP. Moreover, targets for employment have been changed to targets for unemployment.

[1] **[Chinese]** https://cbbc-public.oss-eu-west-1.aliyuncs.com/China%20Policy%20Update/2021/3%20March/%E5%8D%81%E5%9B%9B%E4%BA%94%E8%A7%84%E5%88%92%E5%92%8C%E8%BF%9C%E6%99%AF%E7%9B%AE%E6%A0%87%E8%8D%89%E6%A1%88.pdf

Table – Key Indicators of the 14th Five-Year Plan

		13th FYP (until 2020)[2]	14th FYP (until 2025)	2020
Economic Development	GDP Growth (%)	> 6.5%/year	**Reasonably high but depending on the situation**	2.3%
	Overall labour productivity growth (%)	>6.6%/year	**> GDP Growth**	2.5%
	Urbanisation rate of permanent population (%)	60%	**65%**	60.5%
Innovation	Growth of nationwide R&D expenditures (%)	2.5%	**>7%/year**	2.4%
	Number of high-value invention patents per 10,000 people (pieces)	12	**12**	6.3
	Added value from core digital economy industries as a percentage of GDP (%)	N/A	**10%**	7.8%
Well-being	Growth in per capita disposable income (%)	>6.5%	**= GDP Growth**	2.1
	Surveyed urban unemployment rate (%)	N/A	**<5.5%**	5.2
	Average years of education of working-age population (years)	10.8	**11.3**	10.8
	Number of licensed (assistant) physicians per thousand residents (persons)	2.5	**3.2**	2.9
	Basic pension insurance participation rate (%)	90%	**95%**	91%
	Number of nurseries for infants under 3 years old per thousand residents (units)	N/A	**4.5**	1.8
	Average life expectancy (years)	+ 1 year	**+ 1 year**	77.3*
Environment	Reduction in energy consumption per unit of GDP (%)	-15%	**-13.50%**	N/A
	Reduction of carbon dioxide emissions per unit of GDP (%)	-18%	**-18%**	N/A
	Proportion of days with good air quality in prefecture-level and higher-level cities (%)	>80%	**87.50%**	87%
	Proportion of surface water classified as Class III or better (%)	>70%	**85%**	83.40%
	Forest coverage rate (%)	23.04%	**24.10%**	23.2%*
Food and Energy Security	Comprehensive food production capacity (tons)	N/A	**> 650 million/year**	664 million*
	Comprehensive energy production capacity (tons of standard equivalent)	N/A	**> 4.6 billion/year**	N/A

*2019 data

Source: 13th FYP; 14th FYP ©CBBC

[2] **[Chinese]** http://www.gov.cn/xinwen/2016-03/17/content_5054992.htm

A big change compared with the previous FYP is the lack of a fixed GDP target. Whereas the last edition still set an annual growth target of at least 6.5% annual growth, the 14th FYP merely states that each year's growth target should be reasonable and defined according to circumstances. While this does not mean that the Chinese government will waive growth targets altogether – after all, it still has a 6% growth target for this year – it does indicate that policy makers want to have more leeway to adjust their priorities each year according to domestic and international developments.

Overall, the 14th FYP stands out by its modesty. Most indicators are broadly in line with recent trends or require only a minor improvement from the 2020 level. For example, the plan's air quality target would need only a 0.5% increase over the next five years compared to an improvement of over 10% since 2015.

Even for investment in R&D, the 14th FYP sets a comparatively unambitious target of a 7% annual increase. This compares with an average annual increase in R&D expenditure of 11.5% between 2015 and 2020, according to China's National Bureau of Statistics.

Turning China into a high-tech superpower

Science and technology are at the top of the 14th FYP's agenda. The plan aims at improving China's technological capabilities in seven core 'pillars', and at reducing the country's reliance on foreign components and supply chains in these areas. The seven pillars are: Artificial Intelligence, Quantum Technology, Integrated Circuits, Neuroscience and Neural Networks, Health Sciences, and Space, Maritime, and Polar Exploration. By 2025, these and other emerging industries should account for 17% of China's GDP, the plan states.

Table – China's Science and Technology Pillars

Next-Generation AI	Cutting-edge theoretical research; AI Chip Development; Open-Source Algorithms; Deep-Learning; Image, Voice, Video, and Natural Language Recognition
Quantum Information	Regional and free space quantum communication; General-purpose quantum computing; Quantum circuit simulators; Quantum precision measurement technology.
Integrated Circuits	Integrated circuit design tools, key equipment and high-purity targets; Advanced integrated circuit technology; Insulated Gate Bipolar Transistors (IGBT); Micro-Electro-Mechanical Systems (MEMS) and other special technologies; Advanced storage technology; Wide-bandgap semiconductors such as silicon carbide and gallium nitride.
Neuroscience and Neural Networks	Brain cognition analysis; mapping of brain mesoscopic neural connections; research on major brain diseases; Research on brain development of children and adolescents; Development of brain-like computing; brain-computer fusion technology.
Genomics and Biotechnology	Genomics research and application; genetic cell and genetic breeding; synthetic biology and biological medicine; vaccines research; in vitro diagnostics, antibody drugs; creation of new varieties in agriculture and aquaculture, research on key biosafety technologies.
Clinical Medicine and Health	Basic research on cancer, cardiovascular, respiratory, and metabolic diseases; regenerative medicine and microbiome; research and treatment of transmissible diseases; prevention and treatment of large chronic non-transmitted diseases.
Deep Space, Deep Sea and Polar Exploration	Basic scientific research on the origins of the universe; Mars orbiting technology; asteroid detection; new generation of heavy-duty launch vehicles and reusable space transportation systems, deep earth exploration equipment; deep-sea maintenance equipment; polar observation platforms and heavy icebreakers; 4th phase of the Moon Project and 2nd phases of Jiaolong and Xuelong exploration.

Source: 14th FYP ©CBBC

To achieve this goal, the 14th FYP foresees the promotion of Beijing, Shanghai, the Greater Bay Area, and Anhui's capital Hefei – China's research centre for quantum physics – into internationally recognised centres for science and technology. These centres should especially focus on basic research which, by 2025, should account for 8% of China's total R&D funding.

Just as importantly, the plan states that advances in technological innovation should not be confined to military and state-backed programmes, but should be widely applicable and serve the betterment of the broader population. The FYP specifically encourages central and local authorities to facilitate private investment, international cooperation, and less restrictive visa regulations for foreign talent.

Climate Change and China's Green Technology Revolution

With COP26 only months away, China's green development policies have received increased attention. Many environmentalists had entertained hopes that the 14th FYP would follow up on Xi Jinping's promise to the United Nations [3] to reach carbon neutrality by 2060 and include steep curbs on emissions and new coal-fired power generation plants, which still accounted for nearly 58% of China's energy consumption in 2019. [4]

Unfortunately, the plan does not include any of these targets. Instead, the 14th FYP's main priorities are the improvement of China's energy efficiency, the expansion of renewable energy sources, and the modernisation of China's state grid.

Thus the plan sets out that energy consumption and carbon dioxide emissions per unit of GDP should be reduced by 13.5% and 18% respectively over the next 5 years. At the same time, renewable energy sources – comprising wind, solar, water and nuclear energy – should increase to 20% of China's energy mix, up from 16% in 2019. [5]

For that purpose, China wants to establish a nationwide smart grid which can direct wind, solar and hydropower from the country's mountainous and sparsely populated Western and North-Western regions to the crowded and energy hungry coastal areas. The Western power bases will be complemented by a network of offshore wind parks and ten new nuclear power plants along the Eastern and Southern coastline.

Although many commentators and climate activists have expressed their disappointment at the absence of binding emission targets, as well as Beijing's continuing commitment to coal energy [6], their criticism misses both the existing constraints on Chinese policy making and the holistic and systematic nature of the 14th FYP's approach.

First, the FYP is a national policy document which must consider the interests and often vastly different economic conditions of all provinces and local governments. A simple cap on emissions and polluting industries would very likely have pitched China's heavily industrialised and coal-dependent northern

[3] https://news.cgtn.com/news/2020-09-23/Full-text-Xi-Jinping-s-speech-at-General-Debate-of-UNGA-U07X2dn8Ag/index.html
[4] https://chinapower.csis.org/energy-footprint/
[5] https://chinapower.csis.org/energy-footprint/
[6] https://www.ft.com/content/2cc58515-92ac-45fa-96bb-edb2050f21fb

provinces against its warmer and less polluting provinces in the South. So while such an approach might have delighted western climate activists, it would have been a political non-starter.

The second misunderstanding relates to China's current basic needs for a successful energy transition. China already has the world's highest capacity derived from renewable energy, and is the world's biggest market for both wind and solar energy [7]. [7] Yet an aging grid and an inability to transmit energy produced in sunny and windy regions to other areas has long plagued progress in replacing more polluting energy sources such as coal and gas [8]. [8] Upgrading and modernising China's inadequate state grid is an indispensable precondition for an effective replacement strategy.

The 14th FYP's focus on energy efficiency, smart grid development and the research of advanced energy storage technologies should be seen less as a broken promise, and more as a strategic adjustment to prepare China's energy network for an accelerated transition to cleaner energy sources in the second half of the next decade,

Regional Development and Service Sector Opening

Regional clusters are playing an increasing role in China's economic development strategy. The Jing-Jin-Ji capital region, which combines Beijing, Tianjin, and Hebei, the Southern Greater Bay Area and the Shanghai-centred Yangtze River Delta are all examples of this trend. Compared to traditional special economic zones and regional development plans, they will combine pilot reforms with better administrative coordination between adjacent municipalities.

The 14th FYP incorporates these initiatives and adds its prioritization of the broad and all-inclusive regional strategies.

Jing-Jin-Ji region – Administrative Decentralisation

- Continue the relocation of non-capital functions to neighbouring areas, such as the Xiong'An New District and the new administrative sub-centre in Tongzhou;
- Promote the integrated development of Beijing with the adjacent counties Sanhe, Xianghe, and Dachang in Hebei province;
- Promote the Tianjin Binhai Economic Zone and the Zhangjiakou's ecological and water conservation project and improve the coordination of underground water management and soil protection in the region;
- Support basic research and innovation at the Beijing Science and Technology Innovation Center.

Yangtze-River Delta – Green Development

- Strengthen the environmental and cultural protection of the Yangtze River basin and enforce the 10-year ban on fishing in river;
- Improve urban sewage and waste treatment;
- Set up green development model zones and built a green industrial system;
- Build a comprehensive railway transportation network along the Yangtze river to reduce the need for water transport.

[7] https://www.weforum.org/agenda/2016/06/china-green-energy-superpower-charts/
[8] https://e360.yale.edu/features/why-chinas-renewable-energy-transition-is-losing-momentum

Greater Bay Area – Research and Innovation

- Strengthen the coordination of industry, universities, and research institutes;
- Facilitate cross-border flows of students, talents, services, and investment and promote youth exchange within the area;
- Establish an intercity railway system and add new shipping and air transport capacities;
- Promote the integration of regulations and qualifications between the mainland and Hong Kong and Macau.

The FYP's priorities notwithstanding, these three regions compete for resources and investment from both Beijing and abroad in several sectors, such as finance, advanced technologies, and research. This competition could well lead to an acceleration of reform initiatives across China.

Foreign Trade and BRI

The 14th FYP's section on foreign trade mostly reprises previous announcements regarding the opening-up of China's service sector. The FYP thus reiterates China's commitment to removing non-tariff barriers and access restrictions and to establish a unified negative list for services.

The plan also repeats China's wish to join CPTPP and to sign and implement the EU-China Comprehensive Agreement on Investment. It also highlights China's growing role in international organisations and rule-setting bodies. In particular, Beijing wants to play an active role in the ongoing process of WTO reform and the regulation of global data rules and other emerging technologies.

Finally, the 14th FYP confirms the importance of the Belt-and-Road initiative in China's foreign policy. It stresses the need for financially sustainable investment in BRI countries and adds healthcare cooperation to the initiative's main priorities. It also proposes the establishment of an '*Aerial Silk Road*', focusing on China's thriving cross-border e-commerce with third countries.

CBBC View

More so than its predecessor, the 14th FYP marks the shift from a purely-growth oriented development model for China towards a high-quality and innovation-driven one. The plan sets out modest targets overall, a sign that China's top planners want local authorities to instead focus on regulatory reforms and better governance. Quality, not quantity, of growth is clearly now the guiding light for the government.

One implication is that Beijing will probably be far more focused on domestic reforms than state-driven global investment sprees over the next five years. Nonetheless, China's technological prowess and the increasing integration of Chinese and international financial markets will still help Chinese firms to gain market share abroad, and lead to further Chinese investment in both developing and developed economies.

The government's focus on domestic consumption and the growing Chinese middle class should help British exporters. Better welfare protection and higher incomes should all increase demand for high-quality consumer goods and services, for which the UK remains one of the world's leading exporters.

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