



China's 14th Five-Year Plan: First Impressions

By Bert HOFMAN

The “Two Sessions” are the highlights of China’s politics. Postponed last year to May due to the coronavirus epidemic, this year it took place as usual in early March. There are not one but two congress meetings in the Great Hall of the People on Tiananmen Square in Beijing, namely, the Chinese People’s Political Consultative Conference and the National People’s Congress (NPC). The highlight was Premier Li Keqiang’s Government Work Report, followed by The Planning Report and Budget Report delivered to the NPC.

The most anticipated document was, however, the 14th Five-Year Plan (FYP), or to use the full title, the “(Draft) Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035”. At its Fifth Plenum of the 19th Party Congress last October, the Chinese Communist Party had provided its guidelines for the Plan (I wrote about it [here](#)) so it was not a complete surprise what was in the document released on 5 March 2021. The Draft Plan provides many more in its 140 pages, 15 main sections and 65 chapters of details to be exact. This was less than the 13th FYP, which consisted of 20 sections and 80 chapters, a meaty read nevertheless. A quick glean of the main objectives of the Plan is however provided in the form of a table (Table 1), which contains the main indicators and targets of the Plan, and provided here in translation (the Plan is only available in Chinese at this point).

First, what is starkly missing is the growth target for the five-year plan period. In the 13th FYP the target was 6.5% per year on average. This target was, with some recent revision in historical data, still achieved, despite the meagre 2.3% growth in 2020. Of course, the 2.3% GDP growth was still stellar performance when compared with that of most other countries. The absence of a growth target for the 14th FYP could reflect a trend towards de-emphasising growth, as has happened in recent years. Growth targets, even if “indicative” can force policymakers to

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pursue too expansionist policies, which could lead to undue debt built up and risks in the financial system. It could also undermine the goal of rebalancing the economy as China's policymakers are inclined to stimulate investment and exports rather than consumption, as was the case in the COVID-19 downturn last year.

TABLE 1 MAIN INDICATORS OF ECONOMIC AND SOCIAL DEVELOPMENT DURING THE "14TH FIVE-YEAR PLAN" PERIOD

Category	Indicator	2020	2025	Annual average/ [cumulative]	Nature
Economic development	Gross domestic product (GDP) growth (%)	2.3	--	Keep it within reasonable Interval, each year depends on the situation	Indicative
	Labour productivity growth (%)	2.5	--	Higher than GDP growth	Indicative
	Urbanization rate (%)	60.6*	65		Indicative
Innovation	Growth in R&D spending	--	--	Growth > 7%. Aim for a higher share in GDP than under the 13th Plan (2.2% of GDP)	Indicative
	Number of innovation patents per 10,000 people	6.3	12		Indicative
	Digital Economy share of GDP	7.8	10		Indicative
People's wellbeing	Growth in disposable income	2.1	--	In line with GDP	Indicative
	Urban (survey) unemployment rate	5.2	<5.5		Indicative
	Average years of education of working-age population	10.8	11.3		Binding
	Number of licensed physicians per thousand population	2.9	3.2		Indicative
	Basic pension insurance participation rate (%)	91	95		Indicative
	Nurseries for infants under three years old per thousand people	1.8	4.5		Indicative
	Average life expectancy (years)	77.3*	--		Indicative
Green Ecology	Reduction in energy consumption per unit of GDP (%)	--	--	[13.5]	Binding
	Reduction of carbon dioxide emissions per unit of GDP(%)	--	--	[18]	Binding
	Share of days with good air quality in cities at prefecture level and above (%)	87	87.5		Binding
	Share of surface water at or better than class III (%)	83.4	85		Binding
	Forest coverage rate (%)	23.2*	24.1		Binding
Security/ Safety	Comprehensive grain production capacity			>650mn. tons	Binding
	Comprehensive energy production capacity			>4.6bn. tons of coal equivalent	Binding

Source: Draft 14th Five-Year Plan, Note: ① [] is the cumulative number in five years. ② The data with * are for 2019. ③ Comprehensive energy production capacity refers to coal, petroleum, natural gas and non-fossil energy production capacity. ④ The ratio of days with good air quality and surface water in cities at prefecture level and above in 2020. The index value of the proportion of water bodies reaching or better than Class III is affected by factors such as the new crown pneumonia epidemic, which is significantly higher than normal years. ⑤ All employees in 2020; labour productivity growth of 2.5% is expected.

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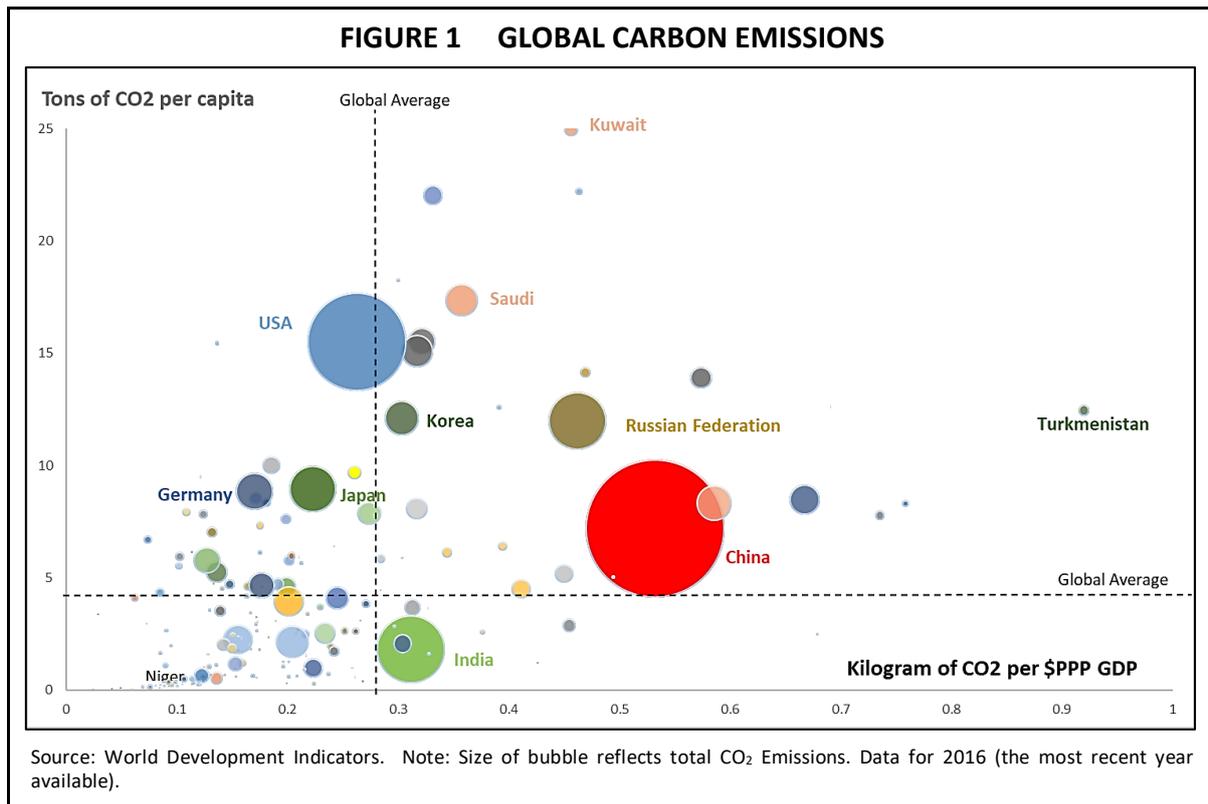
The absence of a target is also a reflection of an awareness that setting a growth target for the next five years may simply be too hard, or too politically risky at a time of uncertainties in the global economy still affected by COVID-19 and the Trump legacy which will take time to undo. Instead, the Plan promises a growth target for every year, “within a reasonable interval depending on the situation”. For next year, the Government Work Report did set a target—six per cent or more—but that already is in the bag: if China were to maintain its 2020 fourth-quarter GDP level it would reach six per cent growth for the year.

Second, the number of indicators, and in particular the number of *binding* indicators, is down. The 12th FYP targeted 24 high-level objectives and the 13th FYP had 25, of which 14 were “obligatory” (binding) ones. The targets for the draft 14th FYP were down to 20, of which eight were binding. In particular, there was a cut-back in the number of indicators in the area of local environment as well as a cut-back from the 13th FYP in the level of local pollution reduction targets set for pre-existing ones. Granted that some targets of the 13th FYP are now redundant, such as the obligatory target on poverty reduction, which was fully met and celebrated with much fanfare last week, and in broadband access where the numbers are now so high that setting a target would hardly matter. In other areas of priority, though, the level of ambition seems modest—such as in Research and Development, an area in which the 2.5% of GDP spending for the 13th FYP was missed (it turned out 2.3%) and now replaced with a (presumably nominal) increase of seven per cent per year, which should be easily met.

On climate change, the Plan was eagerly anticipated because it could provide a first glimpse into how China would plan to meet President Xi Jinping’s commitment to net zero emissions by 2060. Although the commitment was repeated in the Plan and the Government Work Report, the focus was still on the Paris Accord target to peak carbon by 2030 and to reduce carbon intensity of the economy by 18% in the coming five years, a target identical to that set under the 13th FYP. This means that total greenhouse gas emission will most likely continue to increase: assuming an average growth rate of five per cent in the coming five years, China would add a further 10% in emissions by 2025. While this is fully compatible with the Paris agreement, it remains to be seen whether this would be enough to get China on a net-zero track in time.

China has been the largest greenhouse gas emitter in the world for some time now (Figure 1), emitting more than twice the volume of CO₂ of the United States. In per capita terms, though, it is still well behind the United States, even though it is now above the average per capita emissions globally. In terms of emissions per unit of GDP, a measure of efficiency, China has been improving rapidly, in line with its nationally determined contribution to the Paris Agreement. Nevertheless, it is still higher than the global average at this stage.

For the coming year, Premier Li Keqiang promised a plan for meeting the Paris Agreement goals, but not the net zero goal; the 14th FYP also gave no indication as to whether a plan for net zero is in the making. The only inkling was in the target for energy intensity, a main driver of greenhouse gas emissions, which was set a notch below that of the 13th FYP. Another upside was Xie Zhenhua, China’s official who helped broker the Paris agreement, who is back as China’s climate envoy, a move that could improve cooperation with the United States, the other big player that is back in the Paris Agreement. Another possible indicator could be the focus on carbon capture and storage, a critical technology to make the existing net zero commitments of many countries work, but one that needs innovation and scale to become economically viable.



A final area highly anticipated and of global importance is China’s plans for science, technology and innovation. As part of the overarching “Dual Circulation” strategy, China has announced its intentions to rely more on “indigenous innovation” and to aim for breakthroughs in foundational technologies, an area in which it is more dependent on foreign knowledge. It is in this area that Chinese companies proved to be most vulnerable to actions taken by the US government under Trump—measures that have yet to be reversed. The 14th FYP doubles down on efforts to reduce such dependence. While the target on increases in R&D spending is modest (seven per cent growth, which should be easily met), the plans are not.

No doubt, more detail will be included in the forthcoming Medium to Long Term Plan for Science and Technology 2021-35, but the 14th FYP document is already filled with initiatives, policies and programmes to beef up research and development. This ranges from founding new or improving existing national laboratories in critical areas, to supporting regions such as Beijing, Shanghai and the Greater Bay Area to develop science and technology platforms, to setting up centres for technology transfers from research centres to enterprises, to promoting R&D talent and encouraging immigration of scientists, and to catalysing technology cooperation among enterprises, and so on. In total, even with the exclusion of the chapter on New Infrastructure (which is also innovation-filled) the Plan devotes seven chapters to Science, Technology and Innovation, three more than the 13th FYP, plus another four on digital development.

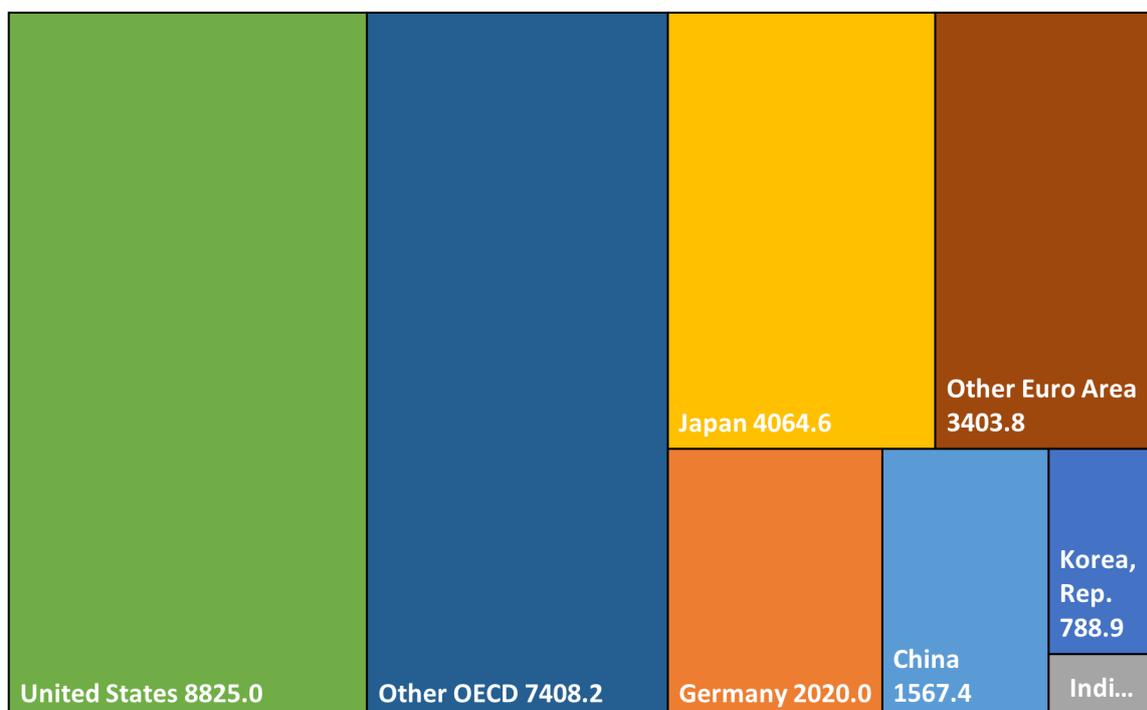
The Plan also pledges to increase spending on basic research, a traditionally weaker area for China. By the end of the 14th FYP, China aims to spend eight per cent of its R&D on basic research, up from some 5.5% currently according to the OECD. This is only one third the share that the United States and Korea spend on basic research, and half that of Japan’s. Despite recent increases in spending, China is still behind in other ways: R&D is not just a matter of spending, but a matter of spending it well and delivering commensurate value. Figure 2 compares *cumulative* R&D spending of China with other countries. From this perspective,

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China still has a lot to catch up: in current dollars, it spends about half that of the United States (which is close to equal amounts in comparable prices), but in cumulative terms it has spent only about one-sixth.

Although the plan mentions the need for international cooperation in science and technology, a move that would clearly benefit China and the rest of the world, China's plans for indigenous technology development are likely to be controversial internationally. Perhaps unnecessarily so as China is one of the few countries that brings its plans together in one place. Countries around the world have their own technology policies and a growing number has been pursuing industrial policies in light of disappointing economic performance since the global financial crisis, but these policies are often captured in a multitude of policies and programmes. The challenge for China and other countries is to keep the *instruments* with which they pursue such policies compatible with an open, market based on an international economic system. WTO reforms, now under the excellent leadership of my former colleague at the World Bank, Ngozi Okonjo Iwaela, would certainly help to regulate intensifying technological competition.

**FIGURE 2 SPENDING ON RESEARCH AND DEVELOPMENT CUMULATIVE, 1996-2018
(CONSTANT 2010 USD BN.)**



Source: World Bank World Development Indicators. Note: Spending is depreciated at five per cent per year, reflecting the gradual outdateding of acquired knowledge.

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