

Economic Watch

China | Understanding the 14th Five-Year Plan and the 2035 long-term development target

Jinyue Dong

November 11th, 2020

During October 26 to 29 of the last week, the Fifth Plenum of 19th Chinese Communist Party's Central Committee was held in Beijing, in which the outline of the 14th Five-Year Plan for 2021-2025 has been reviewed and approved. In addition, the meeting also discussed the long-term economic and social development target to be accomplished by 2035. The final version of the 14th Five-Year Plan will be released at next year's National People's Congress in March 2021. With the global recession caused by the coronavirus pandemic and rising U.S.-China tensions, the meeting was launched at a particularly critical time for China and the global economy, attracting the world's attention.

According to the Communiqué of the meeting which was released on October 29, China's 2035 long-term target is to "basically achieve socialist modernization", when China's economic and technological strength as well as the composite national strength will increase significantly. In particular, by that time, the GDP per capita of China will reach the level of moderately developed countries.

On the other hand, the Communiqué also released the 14th Five-year Plan. Traditionally, the past five-year plans normally include numerous policy objectives across a wide range of economic and social development topics. Over the last several decades, "deepening domestic reform and pressing ahead opening-up policies" and "enhancing household welfare" have always been the main themes, which the 14th Five-year plan remains. More innovatively, the 14th Five-year plan focuses on four important topics, including downplaying the growth target figure, "dual circulation" model, technology advancement, and environment protection.

Based on the format of past five-year plans, the languages are traditionally theoretical and ideological. Consequently, instead of listing the policies in every perspective, it is more useful to summarize the important policy signals in the following seven perspectives:

No explicit growth target

As we expected, the Five-year Plan does not mention the explicit growth target figure for the next five years. Amid the global recession and a slowdown of China's potential GDP growth, Chinese authorities will be more tolerant to a lower GDP growth in a bid to pursue economic rebalancing and quality of growth. In particular, the authorities will continue to promote the transfer of the growth engine from export and investment driven to consumption driven as well as to balance economic growth and environment protection. Although there will be no growth target announced, we still anticipate there will be a new increasing urban employment target for 2021-2025 in order to maintain social stability.

The "dual circulation" model with the focus of "internal circulation" will be the authorities' new strategy throughout the 14th Five Year Plan

Under the new international environment, as we expected. The "internal-circulation" has at least three important meanings: (i) "consumption internal-circulation", indicating China needs to focus on stimulating domestic demand in the near-term amid the global COVID-19 pandemic; (ii) "supply-chain internal-circulation", suggesting to strengthen China's grip on supply chain and reduce the reliance on foreign suppliers in key technology fields amid the decoupling risk of China and the US; (iii) "factor market internal-circulation", indicating to continue the factor market

reform to promote factor mobility. On the other hand, the “dual circulation” model not only emphasizes on stimulating domestic demand but also on sticking to the opening-up policies and financial liberalization in a bid to take use of the “two markets” domestically and globally.

Technology advancement is the new focus of the Five-year plan

We expect policy efforts to facilitate both channels. However, rising tensions between the US and China have highlighted significant uncertainties in the acquisition of core technologies from foreign sources. Thus, more policy emphasis is expected to be placed on the domestic innovation channel going forward. In particular, we anticipate the authorities will increase the investment in the so-called “New Infrastructure”, i.e. big data, 5G, Artificial Intelligence, block chain, cloud computing, digital economy, etc. In addition, the government will further enhance the property rights protection and provide a competitive environment for science and technology development together with solving the long-lasting “brain drain” problem in China.

To press ahead domestic structural reforms to release growth potential

To press ahead domestic structural reforms to release growth potential, mainly including: (i) To push forward the long-lasting SOE reform to improve SOEs’ efficiency and create an equal environment to foreign firms and non-SOEs; (ii) To further achieve the factor market reform particularly the Hukou system in a bid to promote population mobility and ultimately new urbanization as well as the land reform which aims to clarify land usage rights and the transfer of usage rights. The scope would cover at least farm land and land used for residential and commercial properties.

To stick to the opening-up policies going forward

The focus of opening-up policies in the next five years include three perspectives: (i) To expand the Free Trade Zone trials in many provinces; (ii) To reduce the “negative list”, further lower import tariff and various non-tariff barriers. (iii) To attract FDI inflow and promote ODI by means of One Belt One Road initiatives, etc.

To push forward financial market liberalization while to maintain financial stability

Financial liberalization in China has been always referring to the four perspectives: RMB internationalization, interest rate liberalization, exchange rate marketization and capital account opening. While pressing ahead the above four categories of financial liberalization in a right pace and order, the authorities also emphasize the importance of maintaining financial stability through financial regulations, for instance, deleveraging on corporate debt and implicit local government debt, regulating shadow banking and cross-border capital flows, as well as controlling housing bubbles etc.

Environmental protection and Green economy

Environmental protection will be the foundation of international cooperation with the EU and other advanced economies. The Communique requires the carbon emission to significantly reduce through 2035 in China. In addition, we expect China to set a stricter environmental protection and carbon emission standard in the next five years. And accordingly, the authorities will increase the public expenditure on environmental protection equipment etc.

DISCLAIMER

This document has been prepared by BBVA Research. It is provided for information purposes only and expresses data, opinions or estimations as of the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, which have not been independently verified by BBVA. As such, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been made according to generally accepted methodologies, and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorized by BBVA.

CONTACT DETAILS:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com

