

Prudent but Ambitious: Messages of China's 14th Five-Year Plan



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The 14th Five-Year Plan (FYP) was approved at the Two Sessions 2021 held in Beijing, China. The 14th FYP holds special meaning when compared to previous FYPs. It marks the 100th anniversary of the Chinese Communist Party and its first year of pursuing the second centenary goal, “building a modern socialist country”, after completing the first centenary goal of “achieving moderate prosperity”. Thus, the Two Sessions 2021 served as an opportunity for China to present its policy and strategy for the next 50 years. Through the 14th FYP, China has announced new messages for China’s national vision in three core areas: Sustainable Growth, Dual Circulation, and Independence of Technology.

The first message is Sustainable Growth. The ultimate goal of the second centenary is to join the ranks of advanced countries by 2049. In order to achieve this goal, China is transitioning toward qualitative development to secure economic security rather than pursuing rapid development. The Chinese leadership is concerned that setting excessive growth targets for the economy could place too much pressure on local governments and state-owned enterprises, which are still struggling to overcome the shock of COVID-19. What’s more, China is formulating a new economic development

paradigm to overcome its high dependency on external environments and weaknesses in high-technology fields revealed during the US-China trade conflict. Accordingly, the government has set a more conservative target of economic growth as it concentrates on ensuring sufficient growth potential for sustainable future growth of the economy.

China is showing a prudent attitude about the target of economic growth, choosing to not present a specific number for its economic growth rate. Instead, the 14th FYP announces that annual growth rate targets will be adjusted according to the economic situation every year, rather than fixing a target growth rate for five years. This is in contrast to the past FYPs. For the past 20 years, China has presented a target economic growth rate in each FYP, and has shown excellent economic growth performance with a growth rate much higher than the target, except for the year 2020 due to the COVID-19 pandemic outbreak. It seems that China is aiming to consolidate its economic recovery and secure sufficient growth potential. That is also why China has presented a conservative target for economic growth of “higher than 6%” in 2021, which is far below the market consensus of growth in the mid-8% range.

The second message is Dual Circulation, a new development strategy presented in the 14th FYP. According to the Chinese government, the Dual Circulation strategy relies primarily on “internal circulation” focusing on domestic demands while developing “external circulation” as a complement. The aim appears to be set on stimulating the domestic economy to overcome the “structural pitfalls” of export-oriented economics that China had been wary of, even before the US-China trade conflicts. In the words of Premier Li Keqiang: “Under the Dual Circulation, innovation-driven and high-quality supply creates new demands for domestic economy, expanding internal circulation.” Then, the internal circulation forms a strong gravitational field to attract global commodity and resources, thus forming the external circulation.

The Dual Circulation strategy makes it clear that China has to look inward to tap the potential of its huge domestic market in terms of both consumption and investment. Before COVID-19, the total amount of retail sales in China was 6.0 trillion dollars (as of 2019), at a similar size with the United States (6.2 trillion dollars), and the size of its import market is the second largest in the global market after the United States.¹

The outlook for the domestic investment market in China is quite optimistic as well. The 14th FYP includes investment in digital and green industries as a new engine of growth for the next

1 “双循环”战略提出, 中国有望成为全球超大规模市场? (Nov. 13, 2020), <https://weibo.com/ttarticle/p/show?id=2309404570886987448372> (accessed on April 28, 2021).

five years. These innovating and emerging economies have great potentials. The size of China's digital economy is 35.8 trillion RMB (as of 2019), accounting for 36.2% of the total GDP, and China represents 21.7% and 14.2% of global imports and exports, respectively, in global digital trade.² In addition, President Xi Jinping announced that China is aiming to reach peak CO2 emissions by 2030 and achieve carbon neutrality by 2060, at a virtual conference held at the United Nations on September 22. A target for the green economy has been added in the 14th FYP, signaling again how China is placing great significance on the green economy sector. Thus, private and public investment in the green economy is expected to expand strongly.

The Chinese leadership regards the strategy of Dual Circulation not only as a new paradigm for China's economic development but also an aggressive plan to deal with the deteriorating external environment due to US-China trade conflict and COVID-19. The severe changes in the environment make it unsustainable and less predictable for China to continue relying on overseas demand. Therefore, China is taking an inward-looking approach to ensure the momentum of its future development.

Third, the 14th FYP includes an emphasis on innovation and achieving independence in high-tech research. Here, spotlight is on independence of technology. Over the years, China has been pursuing research and development in the area of science and technology. It has sought to acquire advanced technology by aggressively conducting overseas investment, M&As with foreign companies, and cooperation projects to share technology. However, it has proven difficult to acquire technologies through these methods as Western countries are concerned about China's technology takeover. The unprecedented wave of anti-Chinese sentiment has made it more difficult to import advanced technology from abroad.

In order to overcome this external weakness in the technology sector, China has announced a plan to achieve independence and self-reliance in science and technology. Premier Li has stated that China will achieve technology innovation and self-reliance with the spirit of "grinding a sword for ten years (十年磨一剑)." This shows how China desperately wishes to overcome its weakness in advanced technology fields.

The Chinese leadership has decided to increase R&D investment significantly. While the 13th FYP aimed to increase the ratio of R&D to GDP from 2.1% in 2015 to 2.5% in 2020, the 14th

2 KOTRA (Nov. 17, 2020), <https://news.kotra.or.kr/user/globalBbs/kotranews/3/globalBbsDataView.do?setIdx=242&dataIdx=185844> (accessed on April 28, 2021).

FYP aims to increase the annual growth rate of R&D investment itself by 7% every year. According to the UNESCO Institute for Statistics, China's R&D spending in 2020 was 346.3 billion dollars, or about five times that of Korea's (73.1 billion dollars).³ If China increases its R&D investment by 7% each year, it will increase by more than 24.2 billion dollars every year, which in itself amounts to 33.3% of Korea's annual R&D investments in 2020. And this increasing R&D investment will play an important role in the major fields of the Sci-Tech Innovation 2030 Agenda, including artificial intelligence, quantum communications and computing, brain science, semiconductors, biotechnology, among others.

This new strategy for science and technology innovation has been planned in close detail, showing what China thinks are the external challenges it must overcome or its "choke point (卡脖子)." In the midst of painful setbacks on the battlefield of the US-China trade conflicts, China can be seen as already grinding its sword for the future.

The overall mood displayed by China in the 14th FYP and the Two Sessions 2021 is neither hesitant nor daunted by the Western countries' sanctions. On the contrary, Chinese leadership flourishes the achievements gained despite the shock of COVID-19 and announces its expectations of a positive growth rate this year, going on to proclaim a new development paradigm to overcome existing vulnerabilities.

Then how can Korea maintain its economic advantage in the face of China's ambitious plan for the next five years? Though China has established new strategies such as Dual Circulation and plans to achieve independence in technology, it may take time to fulfill these strategies. Korea can maintain its advantages in some industries for a while. However, China is already proceeding with detailed strategic plans for the next 15 years, drawing upon lessons gained from historical experience. Therefore, it is time for Korea to formulate its own strategic plans and policies to ensure Korea's autonomy and leadership amid the rising waves of the 14th FYP of China. **KIEP**

3 UNESCO Institute for Statistics, <http://uis.unesco.org/apps/visualisations/research-and-development-spending/> (accessed on April 28, 2021).