

WORKING PAPER

Understanding and Benefiting from China's 14th Five-Year Plan and 2035 Vision

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The 5th Plenary Session of the 19th Central Committee of the Communist Party of China held in October 2020 approved the committee's "Suggestions" for *the 14th Five-Year Plan (2021-25) on the National Economic and Social Development and the Long-Term Objectives through the Year 2035*. For the event, questions that might be asked by international business circle include that how the outside world can benefit from China's development in the period concerned. Before answering such questions, it is necessary to illustrate the highlights of this medium and long-term development plan by focusing on four expressions – namely, the new development stage, new development goal, new development philosophy and new development pattern.

1. Entering New Development Stage

2020 is a year of significance for China. By the end of the year, a series of economic and social development indicators will mark the completion of building an overall well-being society. For example, gross domestic product (GDP) per capita will exceed ten thousand US dollars, average income of rural and urban residents will virtually double that in 2010, and rural absolute poverty will be eliminated. With all those great achievements, China will enter a new development stage characterized by the new journey of modernization. Specifically, China will strive to realize basic modernization in 2035 and build a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful in 2050.

According to international experiences and scholarly lessons, when individual countries enter their transitional stage from upper-middle income to high income status, or even in the lower status of high income, they tend to face particular difficulties of sustaining economic growth and social stability – that is, various risks of falling into middle income trap or threshold trap in the new journey. In the next five-year plan period and longer, China will encounter various developing difficulties and growing pains. The Plenary Session particularly highlights the complex international environment under which China develops and the problems caused by the change in China's development stage during the period. The conclusion is that challenges

and opportunities will coexist, and various challenges, once tackled properly, can be transformed into vast opportunities.

2. Setting New Development Goals

The Plenary Session has set main objectives for economic and social development in the Five-Year Plan period and beyond. According to the past practice, one would expect the Party to propose specific targets for the growth of GDP and per capita income. As a matter of fact, estimate by authority suggests that the Chinese economy will have full potential to maintain a long-term growth in the period concerned. Namely, per capita GDP will exceed the threshold of high-income countries and the total GDP or resident income double its size by 2035.

However, for two reasons, the Plenary Session decided to express the main goals by taking a qualitative expression while letting it implicitly contain a quantitative meaning. One, China's economic growth will face various uncertainties and risks. Two, in the new development stage, high quality development is more vital than growth speed. Therefore, the Plenary Session only set two-step goals for per capita GDP – namely, crossing the threshold of high-income countries by 2025 and reaching the middle level of high-income countries.

Considering China's growth ability and population trend in the decade or so, scholars at Chinese Academy of Social Sciences estimate the potential growth rate of per capita GDP in 2021-2035 to be 4.81% per annum. With such a growth rate, per capita GDP of China will reach 13852 US dollars in 2025, exceeding the threshold of the high-income countries suggested by the World Bank (roughly 12000 US dollars) and 21731 US dollars in 2035, closing to the threshold of the middle third of the high-income countries (roughly 23000 US dollars) according to the same measure of grouping.

There are a couple of factors that deviate actual result of per capita GDP growth from that prediction. The sharp drop of growth rate in 2020 caused by the pandemic certainly brings about uncertainty for the economy in years to come. On the other hand, effectively implementing reform can significantly increase potential growth rate – namely, the reform dividends, as is revealed by scholarly studies.

3. Implementing New Development Philosophy

The Chinese economy has been in the transition from fast growth to high quality development. In the 14th Five-Year Plan period and beyond, growth rate slowdown will continue and should be accepted as it conforms to development laws. Under such a new normality, however, quality and efficiency of economic development ought to be substantially improved.

The new development philosophy thoroughly defines the meaning of high-quality development. Innovative development emphasizes the transformation of growth driver from factors inputs to productivity increase. Coordinative development aims to balance several relationships, such as between rural and urban areas, among the eastern, central and western regions, between troika of demand factors – namely, export, investment and consumption. Greener development is to tackle the challenges of climate change, environment protection, and resources sustainability. Opening development is to show China's determination to continue to actively participate in globalization. Inclusive development is to tackle problems such as income inequality and unequal provisions of basic public services. In addition, the Plenary Session particularly addresses the balance between security and development.

4. Forming New Development Pattern

One of the new proposals put forward by the Plenary Session is to foster a new development pattern where domestic and foreign markets can boost each other, with the domestic market as the mainstay, which is often called a dual circulation. It is worthwhile pointing out that the dual circulation does not mean any shift of development orientation in China. It is rather to focus more on balances between supply-side reforms and demand-side policy measures, between domestic market and international circulation and between export, investment, and consumption.

The necessity of the dual circulation is determined by both the circumstance of the world economy and the changes happening to the Chinese economy. While the world economy is stuck in "secular stagnation" characterized by low inflation rate, low interest rate, and long growth rate, China's rapid population aging brings about serious challenges for economic growth. First challenge is supply-side shock. China's working age population aged between 16 and 59 peaked and began negative growth in 2012. Resulting labor shortage, slower improvement of human capital, diminishing return to investment, and weak resources

reallocation has led to the decline in potential ability and actual growth rate of the Chinese economy. A second challenge is demand-side shock. It is predicted that China's total population will peak in a year between 2025 and 2030 and then turn to negative growth. According to lessons from other countries, such a turning point tends to lead to a decline in both investment and consumption demands, causing difficulty for China to realize its growth potential.

Reforms and policy adjustments should be initiated to tackle challenges of either supply side or demand side, while some measures can do both. First, supply-side measures that can increase potential growth rate include reforms of state-owned enterprises, financial system, education and training policies, and labor market. Second, demand-side policy adjustments that can expand export, investment, and consumption include tariffs reduction, equalization of basic public services provisions, and income distribution, and redistribution through public finance. Third, the household registration system reform aimed to grant migrant workers with legitimate residence in urban areas can increase potential growth rate by increasing labor force participation and promoting labor mobility, on the one hand, and expand resident consumption by enhancing new residents' income and securing their jobs and social protection.

5. How the New Plan Can Benefit the World?

In its new development stage, by implementing the new development philosophy and forming the new development pattern, the Chinese economy will realize its fast and high-quality development. Other open economies and the world economy as a whole will benefit more from the spillover effect of China's growth characterized not only by its high speed but also by higher efficiency, more equally sharing, sustainability, and security. International business circle will also have greater chance to get on the fast train of China's development.

First benefit for the world is the China engine. In 2010-2019, China contributed 28.9% to the growth of the world economy. Accounting for 16.4% of the world's GDP, even with slower growth, the Chinese economy will continue to serve as the power house of world economy in the future.

A second benefit comes from the China market. Although China only makes up 12.1% of the world's final consumption and its consumption rate is lower than most of major economies, the growth rate of consumption has been the fastest in the world and faster than China's own growth rate of GDP. With 1.4 billion population and mass middle-income groups

consisting of over 400 million population, Chinese residents are indispensable consumers, domestically and globally.

A third benefit is from the China construction. By bringing out strengths of some areas and making up for weaknesses in others, regional strategies intending to balance developments, industrial policies aiming at upgrading manufacturing, and people-centered new urbanization will all create new growth poles and growth points, which offers opportunities of and return to investment for both Chinese and foreign participants. In addition, by following the principle of extensive consultation, joint contribution and shared benefits, the Road and Belt Initiative will focus on infrastructure connectivity and third-party collaboration, from which the world can all share the dividends.