

# Outlining the 14th Five Year Plan and beyond



# Highlights

The fifth plenum of the 19th Communist Party of the China Central Committee was concluded on 29 October. In the meeting, the Central Committee finalized the blueprint for the 14th Five Year Plan, which will set China's economic and social policy agenda for the period from 2021-2025. As the blueprint shows, discussions on dual circulation and technology advancement dominate, while economic growth as a hard development target has been relatively downplayed. It confirms China's new development strategy on more sustainable and high-quality growth.

# 1

## Unveiling the 14th Five Year Plan and Vision 2035

### Planning China's economic development in 2021-2025 and beyond

Chinese President Xi Jinping unveiled the blueprint<sup>1</sup> of the 14th Five Year Plan (14FYP) and Vision 2035 in the fifth plenum of the 19th Communist Party of China Central Committee (fifth plenum) on 26-29 October. Together with the post-plenum communique and press conference, the blueprint provides the first glimpse to the public on China's development strategy from 2021 to 2025 and beyond before the full detail of the plans are officially approved at the National People's Congress in March 2021.

### Setting its sights above near-term volatility

Specifically, the blueprint confirms the remarkable progress in China's economy in the 13th Five Year Plan despite the evolving global economic landscape in recent years, such as the structural hurdles at home, global recession, and geopolitical tensions amid the COVID-19 pandemic. Commenting that "both opportunities and challenges have significantly changed", it nevertheless confirms the assessment that "China remains in a strategic period of growth", and it will move forward its structural reform in the 14FYP and beyond with its sights on long-term and high-quality growth.

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1. [www.xinhuanet.com/politics/2020-11/03/c\\_1126693341.htm](http://www.xinhuanet.com/politics/2020-11/03/c_1126693341.htm)

# 2 Leveraging China's domestic demand in dual circulation strategy

## **Unleashing the potential of China's domestic demand**

As expected, the fifth plenum confirms the unique position for “dual circulation” in the 14FYP. “Dual circulation” is a new term that was first coined by the policymakers earlier this year<sup>2</sup>. It is a practical response to sustain steady growth at home amid a protracted global post-pandemic recession. The “internal cycle”, in particular, emphasizes the resilience of domestic production and unleashing the potential in China's domestic demand.

## **Higher standard of living and greater sense of satisfaction**

The 14FYP blueprint thus includes numerous references to the need to boost domestic demand. First, the 14FYP raised for the first time that in addition to generating further increase in the household income level, the plan will strive to deliver higher standard of living and greater sense of satisfaction to the populace. The government is set up to provide better public goods in the 14FYP in education, health care, and social assistance payment.

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2. Internal circulation - Building an economy with strong domestic drivers, EY report, 2020

## **Building recognized domestic brands**

Second, the blueprint highlighted the need to promote household consumption as a central driver for economic development, with recognized domestic brands and new paradigms in the consumer market. It stated that the government will encourage 1) subscription lifestyle, such that consumer items such as automobiles will be charged for use rather than for ownership; 2) online-offline integration with contactless transactions and reduced transaction cost, giving rise to the development of “international consumption hubs”.

## **Service sector reform to boost market competitiveness**

Third, a key step to nurture domestic demand is to modernize the service industry. Business services should focus on moving up the value chain concentrating on innovation, and seamless integration with advanced manufacturing and modern agriculture. Meanwhile, personal services should focus on market opening, quality upgrade, and product diversification to establish market standards and market-defining brands. This is also consistent with our expectation earlier<sup>3</sup>.

## **Irreplaceable role of government and private investment**

Fourth, unleashing the potential of domestic demand will also rely on sustainable investment, which will continue to play a crucial role in China’s supply-side reform. From public infrastructure, corporate equipment and technology upgrades and strategic industries, to new urbanization, investment from both the government and the private sector will be necessary for China’s market-oriented sustainable growth.

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3. Service sector reform - Growth engine in the 14th Five Year Plan, EY report, 2020



## Coordinated regional development and new urbanization

Last, new urbanization is highlighted as a tool to narrow China's urban-rural development gap, together with "optimized planning for land use". It likely suggests that when the rural population relocates to urban area, such as the coastal city clusters, they may receive a bigger share of revenue from rural land sales. This may both encourage more people to migrate permanently to the city clusters and boost their spending as they do.

## World-leading example in multilateral cooperation

Meanwhile, the blueprint's reference to the "external cycle" includes renewed commitment on trade and investment liberalization, market opening, and the creation of a "high-standard market system" where the rights of both domestic and foreign investors are adequately protected. The government will continue to rely on free-trade zones, especially the Hainan port, as beacons of China's market opening. The 14FYP also re-emphasized the aim to promote the internationalization of the renminbi, to increase its attractiveness as a unit for global transactions and trade settlement.

It also reiterated China's position in multilateral international cooperation, as it intends to leverage on China's massive market to expand the Belt and Road Initiative and promote reform in the international economic governance system. The objective, according to Han Wenxiu, deputy director of the Office of Central Commission for Financial and Economic Affairs<sup>4</sup>, is to make China an exceptionally attractive destination for international investment.

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4. Internal circulation - Building an economy with strong domestic drivers, EY report, 2020



# Technology and innovation advancement

## **A global frontrunner in technology and innovation**

Another key focus is for China to become a “strong country in technology” by moving up in the global value chain and improving its self-sufficiency in vital technologies and know-how. The fifth plenum notes that innovation is a core competency in China’s drive to develop modern industry, and points to self-reliance in science and technology as the strategic support for national development in the future.

## **Four-pronged strategy with the government, corporate, talent, and the market**

The 14FYP blueprint has taken a four-pronged approach in its national technology development strategy, with focuses on the involvement of the state, the corporate sector, talent supply and the market. Ultimately, China is expected to become one of the global frontrunners in innovation and technology, and its competitiveness will come from being a gold standard in advanced integration between research and industry, high-quality manufacturing, and the digital economy.

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## **Modern infrastructure and development of data market**

First, the government pledges to provide modern infrastructure by accelerating the construction of network for 5G communication and facilitating the development of data resources as to enable the development of the Internet of Things (IoT) and big data analysis. It will also drive technology research in priority areas such as artificial intelligence, quantum information processing, semiconductor, life sciences, neuroscience, biological breeding, aerospace technology and frontier science. The blueprint also supports the development of Beijing, Shanghai, and the Greater Bay Area as international technology and innovation centers.

## **Corporate collaboration in national technology projects**

The 14FYP will also reinforce the capability of corporate technology development through favorable tax treatment. Policies will be launched to encourage collaboration between big and small companies, and upstream and downstream industries. The private sector is also encouraged to expand their investment on innovation and form industry alliances to lead national high-priority technology research.

## **Strengthened capacity in fundamental research and talent development**

Various reforms will be launched to nurture more top-level talent to contribute to China's technology development. They include a talent appraisal system based on the quality and impact of innovation, a reform in the membership in the national academies, and additional resources to the development of "high-level research-oriented" universities that will strengthen the supply of talent in fundamental scientific research.

## **Rewarding breakthroughs in the market**

The technology market will only thrive when research is properly recognized and rewarded. It will be achieved through a global-facing research funding system, an appraisal and rating system for achievements, intellectual property protection, a mechanism in the financial market to capitalize breakthroughs, and support to industrialize the new technology.



# 4

## Vision 2035

The plenum also presented “Vision 2035” as a midterm economic strategy. President Xi stated at the inaugural 19th CPC National Congress in late 2017 that China will “basically” realize socialist modernization by 2035 before becoming a fully modernized, socialist nation and a great power in the world by 2050. In the fifth plenum, the vision is further elaborated to include eight targets that comprehensively cover China’s economic, technological, social, political, environment, and military development.

### Downplaying economic growth target

The fifth plenum also downplayed the significance of the annual GDP growth target in 2021-2025 as it called for “sustained and healthy” growth marked by “significantly improved quality and efficiency”. Unlike the last five-year plan, which sought to achieve “medium-to-high growth” to build a “moderately prosperous society,” the communique set the goal of raising China’s GDP per capita to the level of a moderately developed country by 2035.

Even at a slower-than-current pace of growth, China is set to be among the high-income countries by the World Bank definition during the next five-year period. The target will thus give more space for policymakers to focus on the quality of China’s economic growth. As such, the new FYP target will also likely be “soft” or indicative rather than “hard” or mandatory in the final version of the plan in March 2021.

## The first of the two centennial goals

The 14FYP is going to be an important milestone that sets itself apart from the FYPs in the past. At its centennial anniversary in 2021, the Chinese Communist Party will celebrate achieving its goal to “build a moderately prosperous society in all respects”. Next, the Party will set its sight on achieving the second centennial goal, with “Vision 2035” as a key milestone, for China to become a fully modernized, socialist nation and a great power in the world. It suggests that from the 14FYP onward, China’s national development strategy will shift to promote slower but more sustainable and high-quality growth, as it becomes a high-income developed country.



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## Eight targets in China's "Vision 2035"



**1** Further expansion in total economic size and per capita income with major breakthroughs in "core technologies" for China to become one of the frontrunners in innovation



**2** Achieve new industrialization, informatization, urbanization, and agricultural modernization to create a modern economic structure



**3** Modernize the national administrative and governance system to ensure protection on equal participation and development rights; achieving a rule of law system for the country, government and society



**4** Create a strong country in terms of culture, education, talent creation, sports, health, and public civility



**5** Achieve fundamental improvement in ecological environment with reduction in carbon emission and environmentally friendly industry and society



**6** Strengthen external connectivity with more international economic collaboration



**7** Domestic production per capita to reach the level of a moderately developed economy, with sizeable increase in the middle class; narrowing development gap between urban and rural areas



**8** Modernize national defense and establish a safer China

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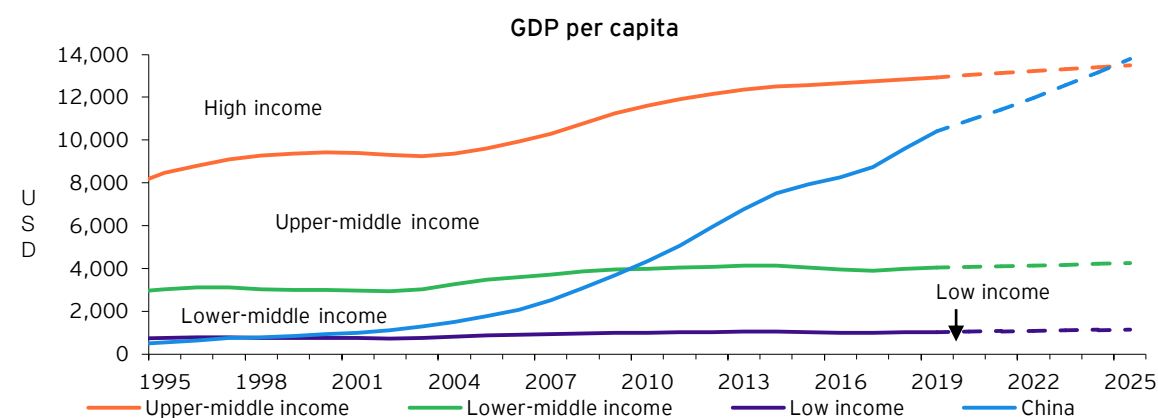
Source: Communiqué of the fifth plenum of the 19th Communist Party of China Central Committee

# China: Projections for key economic indicators

| Step                        | Typical timeframe   | Milestones in 14FYP   |
|-----------------------------|---|---|
| Mid-term assessment         | The third year of the previous FYP  | Reviewed and confirmed the achievements in the previous FYP in the NDRC presentation at the Congress plenary meeting in December 2018 <sup>5</sup>                                      |
| Preliminary studies         | The fourth year of the previous FYP                                       | NDRC identified new key policy topic studies to kick start new FYP preparation in October 2018  |
| Agenda setting              | The end of fourth year in the previous FYP                                | Since the 14FYP planning conference in November 2019, various government departments collaborated with over 60 government think tanks to generate over 130 studies on 37 topics         |
| Blueprint drafting          | The fifth year in the previous FYP  | The Politburo meeting in March 2020 determined the blueprint of the 14FYP and midterm “2035 vision”, with President Xi Jinping leading the efforts                                      |
| Public opinion solicitation | New   | Online solicitation of public opinion on the 14FYP was held in 16-29 August 2020 with over 1 million comments and over 1,000 recommendations; public forums from July to September 2020 |
| Draft approval              | The October before the new FYP  | Discussed and approved the 14FYP draft blueprint and released its main directions to the public in the fifth plenum in October 2020   |
| Plan drafting               | Until the March NPC in the first year of the new FYP                      | Prepared the final FYP document with expert submitting recommendations in consultative panel discussions on key policy areas  |
| Consultation                | The first year of the new FYP before the National People’s Congress (NPC) | Public consultation based on the completed FYP draft in the run up and during the NPC   |
| Final approval              | The first NPC in the new FYP  | To approve and announce the final version of the FYP for implementation in March 2021   |

Source: EY

## China set to become a high-income country with the 14FYP amid moderate pace of growth



Source: World Bank, EY

5. [www.npc.gov.cn/npc/c22242/201901/6cabdd1cbe534de586ccc419defe4030.shtml](http://www.npc.gov.cn/npc/c22242/201901/6cabdd1cbe534de586ccc419defe4030.shtml)

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