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**China's Five-Year Plan: Striving for Reforms and Openness while
Strengthening Party Control**

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China's 14th Five-Year Plan addresses the key challenges facing Beijing's policymakers – continued modernization, ongoing innovation, and attention to structural issues. Delays in addressing these challenges may pose a risk to the stability of the regime. In this context, decision makers must deal with exacerbated economic and social inequality between different regions across the country. The plan highlights the Party's desire to hold both ends of the stick: to accelerate structural reforms and promote international cooperation, alongside Xi Jinping's desire to strengthen self-reliance while increasing Party control over all components of the economy and technology.

The annual session of the National People's Congress in Beijing (March 2021) [approved the 14th Five-Year Plan](#), defined by government leaders as the first in a new phase designed to lead China to become a modern socialist state by 2049, the centenary year of the People's Republic. In fact, however, it is a continuation of the previous program, the first under Xi Jinping's leadership, which marked the direction the party was heading: the promotion of self-reliance, with a focus on economic and industrial modernization and accelerated scientific and technological development.

The current plan does not mention the "made in China 2025" phrase used in the previous plan, in light of the harsh criticism it received outside China, especially by the US administration, which identified it as a blatant intention to transfer advanced technologies from Western countries to China. The current plan presents China's intention to advance two seemingly conflicting goals, in line with the term "dual circulation": on the one hand, inward focus, by expanding trade and services across the country; on the other hand, a declaration of intent to expand cooperation, while promoting free trade areas in the Asian region in particular and the world in general.

The Five-Year Plan, as well as the main points of the [annual report](#) presented to the National People's Congress, outlined the key internal problems that China will face in the coming years:

- a. Unbalanced economic development and exacerbation of economic and social gaps, especially between cities and rural areas; at the same time, less arable land due to accelerated urbanization.
- b. The desire to reach a high level of scientific and technological innovation is still far from being realized.
- c. A gap between stated intentions and results in attempts to reduce ecological problems and environmental pollution.
- d. Weakness in promoting government programs in the social sphere.

Five-Year Plan Goals

As part of the desire to solve these problems, the Five-Year Plan includes the following components:

- a. Expanded trade, with clear priority to improve trade and services circles within China, by building a strong domestic market with high standards.
- b. Government investment in scientific and technological development, including basic research, while increasing the budget by 7 percent annually. Areas of focus include quantum information, photonics, nanoelectronics, communications networks (5G, 6G), AI, bio-media, and modern energy infrastructure. Investment in the development of national laboratories will increase, with the estimated rate of investment in advancing development goals for advanced industry at least 17 percent of GDP.
- c. Accelerated processes of urbanization, while granting resident certificates to millions of immigrants who have moved from the villages, and increasing the city's permanent residents to 65 percent of the total population.
- d. Strengthened actions to preserve the achievements of the government among the rural population, following the declaration that China under Xi Jinping met its poverty eradication goals in 2020.
- e. Attention to the aging population in light of the increase in life expectancy along with low birth rates, which are partly due to the "one child policy" that was abolished in the previous five-year plan. The new program does not address the reluctance of the only child generation to expand their families to more than one child.
- f. The struggle against climate change and global warming, following the President's declaration at the UN General Assembly in September 2020 that China will reach a balance in its carbon emissions before 2060. The plan calls, inter alia, for the expansion of the construction of nuclear reactors and for an increase in the use of clean energy to a level of about 20 percent of the total energy use.
- g. International partnerships in the economic field. The Belt and Road Initiative (BRI) is one of the efforts mentioned, along with the desire to participate actively in planned reforms of the World Trade Organization and to support changes in the

international financial system. Emphasized was the need to expand the system of free trade zones, accelerate negotiations with South Korea and Japan, implement the Regional Comprehensive Economic Partnership (RCEP), and promote China's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) established after President Trump announced his withdrawal from it. In addition, China will strive to "strengthen practical cooperation" in the Arctic region and build the Arctic Silk Road. There is no mention of free trade agreements that are in negotiations with other countries, including Israel.

Goals versus Reality

One of the criticisms raised about the Five-Year Plan is that it is mostly rhetoric punctuated by Party slogans, with cautious and unambitious reference to quantitative targets and without timelines and a work plan for implementation. For example, after a year of COVID-19, during which the government did not set a target for GDP growth, an unambitious target of growth above 6 percent was set in 2021. Unlike in the past, no quantitative goals have been set for the next four years, which suggests a desire to emphasize qualitative rather than quantitative goals. In the past, achieving growth goals has been an important incentive for local authorities, and leaders were promoted after demonstrating economic growth. Now the Party's representatives are facing a different, sometimes contradictory and problematic test, which centers on continued growth alongside the reduction of gaps, including the preservation of "the leader's achievements" in eradicating poverty and meeting the goals of reduced air pollution.

Meeting these quality targets requires a budget increase on the part of the central government, but China's economic parameters will not allow for allocation of extensive development budgets. Policymakers are concerned about the accumulation of debt in the country on all levels: households, the business sector, and the public sector. The debt-to-GDP ratio recently reached 280 percent and a government budget deficit target of no more than 3.2 percent of GDP was set this year, compared to 3.6 percent last year. In addition, quotas for special-purpose bonds issued by the provinces and local government have been reduced.

Moreover, the short-term focus of China's policymakers is on increasing supervision and regulation of credit and capital markets, as well as on all companies, public and private. Officials stressed the need to ensure financial stability and prevent the formation of credit and real estate bubbles. This comes after a rapid sharp and unsupervised rise in internet credit channels in recent years, particularly in payment companies such as Alipay and WeChatpay, which have increased in power and led to fears in the Party of economic and political loss of control. In the currency sector, the Chinese central bank is launching a digital wallet, with one of the goals to reduce the use of similar wallets from Alipay and

WeChatpay, while accessing financial information on public transactions that has not yet been available to the government. The tightening of policymakers' approach has led to the cancellation of the IPO planned by the Ant Group, the financial giant owned by Jack Ma, which was planned for November 2020 in the amount of \$37 billion – the largest initial public offering in financial world history.

In addition, one of the challenges in accelerating development that the party has faced in recent decades has been the reduction of the state-owned enterprises sector. Under the leadership of Xi Jinping, privatization was stopped and the current five-year plan does not address this important structural issue.

On environmental issues, [the Chinese have presented ambitious plans](#) and the authorities have ostensibly set targets for reducing air pollution and expanding the use of clean energy, although they have not set limits on "polluting" energy consumption and even left an opening to increase coal production. The five-year plan does not specify what the Chinese national plan is, in accordance with its general commitment in the Paris Agreements, or specific measures to reduce pollution from now until 2030. This is in contrast to the European Union, the United Kingdom, Japan, and about 70 other countries that have already defined their intended steps.

Conclusions

The plan reflects the Party's strengths and weaknesses: its ability to direct reforms and long-term goals, but with a desire to control all components of the economy and industry, including research and development activities. As part of this, the aspiration to achieve self-sufficient production capabilities of advanced technology is still far from realized. In 2015, the "made in China 2025" program set a target of local production of about 70 percent of annual chip consumption, but by 2020, a target of only 6 percent was achieved.

The Five-Year Plan emphasizes the government's understanding of the structural problems in the economy and especially the exacerbation of economic and social inequality, in part due to accelerated urbanization, population aging, and low birth rates. The plan does not address these issues, which are expected to continue and even heighten, forcing the government to take new steps, such as raising the retirement age, and providing benefits to urban couples who will give birth to more than one child.

China is preoccupied with complex internal problems, and in the coming years some will intensify and force the government to invest considerable financial and political resources in an attempt to maintain internal stability. Leader Xi Jinping's stepped-up Party control over all components of the economy and technology may limit the advancement of the spirit of innovation and make it difficult for the leadership to balance strengthening self-

reliance with continued cooperation with organizations and countries in the international arena.

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