

CHINA'S 13TH FIVE-YEAR PLAN

Priorities, goals, and opportunities

REPORT

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INTRODUCTION

“The next five years are a critical period for China,” **Cai Fang**, Vice-President of the Chinese Academy of Social Sciences (CASS) and Member of the advisory board of the 13th Five-Year Plan (FYP) on National Economic and Social Development of China, told participants at Friends of Europe’s policy briefing on January 28. **“Though our economic slowdown will continue, the 13th FYP will ensure that by 2020, we will have an overall strong economy and society.”**

Currently undergoing review in the lead up to March’s annual session of the Chinese National People’s Congress, the 13th FYP will focus on development, reform and the idea of ‘moderately high growth’, a departure from previous FYPs that provided a specific percentage goal for economic growth.

In terms of development, opening up opportunities is one of the central ideas behind the 13th FYP, noted speaker **Yao Zhizhong**, Deputy Director of the Institute of World Economics and Politics at the CASS. “We aim to develop a new open society under the new FYP, and we will play by international rules,” he said.

With a focus on innovation, green development, and open and inclusive economic growth, China aims to use the next five years to reinforce its socialist market economy and strengthen its position as a global economic superpower.

In order to do this, however, issues of reform and demographics need to be dealt with carefully, Cai said, pointing particularly to Hukou reform (China’s system of special urban residence permits for migrants from rural areas) and the end of the demographic dividend that fuelled China’s double-digit growth of previous decades.

“China matters to the EU,” moderator Shada Islam, Director of Policy at Friends of Europe, said. “While it rebalances its economy from exports and investments to domestic consumption and service industries, **we in Europe are waiting to see what the focus on innovation and open development in the 13th FYP means in practice.**”

CHINA’S ‘NEW NORMAL’ - THE 13TH FIVE-YEAR PLAN AND THE SLOWING ECONOMY

In 2010, China’s economy dipped below 10% growth for the first time in decades. “The slowdown of our economy is an unavoidable fact,” Vice-President Cai said. With a shrinking labour force, productivity and returns on investments as well as other traditional driving factors have declined

For the 13th FYP, the Chinese Central Committee has come to terms with this economic slowdown, adjusting growth expectations downward to what it is now known as the ‘new normal’. Under this new concept, Chinese leaders expect to see moderately high growth that will allow them to meet the goals of doubling GDP and per capita income over the next five years.

In order to meet these goals, Professor Cai said the 13th FYP will focus on five areas of development: innovative development, coordinative development, greener development, open development, and inclusive development.

What do these five development areas mean for China and its global economic partners? In terms of innovation, China aims to increase its innovative capacity to provide more technological expertise domestically and internationally. **“Innovation is the future in China,”** Cai said.

“For us, this means more international cooperation in science, technology, and education.”

Coordinative development will strengthen internal consumption and aims to create a more balanced internal economy. This is especially important for European and foreign investors who will find more opportunities in underdeveloped Western China, he said, which is lagging in terms of economic growth.

Under green development, Chinese investments in environmentally-conscious projects will increase, particularly in the increasingly congested and polluted coastal mega-cities. These projects demand greater investment and involvement from foreign enterprises.

Open development will continue China's integration into global markets and will be closely linked to reforms in the future, as leaders work with international partners to enhance cooperation on free trade, and connectivity under the One Belt, One Road initiative.

Finally, he said, shared development aims to improve the lot of the huge rural population currently living below the poverty line by expanding the scale and scope of domestic consumption and growing the middle class.

CASHING IN ON THE REFORM DIVIDEND

It has been calculated that, in order to meet the goal of doubling GDP, the Chinese economy would need to perform at a growth rate of at least 6.53%, Cai said. However, the latest predictions of the country's potential growth are 6.2%.

The 13th FYP will address this shortfall by enacting reforms aimed at increasing productivity and the labour force, increasing birth rates in the long term, and enhancing education levels. These reforms will provide a boost to the Chinese economy.

A key area is Hukou reform. The Hukou system, China's household registration system, is still struggling to catch up to the reality of rural workers moving to major urban areas. Under the current system of household registration in China, these workers do not have the same rights as those registered in cities, including health care, unemployment insurance, and public education.

As Hukou reform advances, the 170 million rural labourers that it affects will be better positioned to contribute to overall growth, as their education, consumption, and productivity increases. “Once we fix the Hukou problem, we will see an increase in the middle class and domestic consumption,” he said.

Another important area for reform is China's state-owned enterprises, underlined Deputy Director Yao. **“We have come a long way and made huge progress in crafting fair competition in China,”** he said. These reforms are an integral part of Chinese economic growth and its acceptance in global markets.

As part of these planned reforms, the government has established two categories of enterprise: purely profitable enterprises based on market strategies and charitable state-owned enterprises, mostly utilities run for the public good.

In the past, all state-owned enterprises were managed strictly by the government, but the future will show a dedication to the principles of open development and provide opportunities for foreign investment and involvement, he concluded.

OPENING UP CHINA'S ECONOMY

One of the goals of the 13th FYP is the opening up of the economy to global markets, Yao said. Important steps have already been taken in this direction with the opening and subsequent expansion of the Shanghai Free Trade Zone (SFTZ), wherein foreign investors can operate under the rules of free trade.

“We hope to see more foreign investment in the SFTZ,” he said, “and we hope to see more opening up in the rest of China, especially in the health and service sectors.”

While previously, the Chinese economy was primarily export-driven, more open attitudes towards global markets will likely lead to a more even balance between imports and exports. **“In China, many investors are looking outwards for opportunities in resources and infrastructures. We would like to see Chinese industry undergo an important transformation with foreign knowledge and investments,”** he said.

WHERE ARE CHINA'S SHIFTING DEMOGRAPHICS HEADED?

“The ageing rate of China's population is greater than in any other developing country,” said Cai. **“We haven't gotten rich yet, and we are already old.”**

While previously, China's high investment rates were directed towards infrastructure development and manufacturing, with the country's disappearing demographic dividend, new challenges are rising to the surface.

With rampant over-production, notably in the steel industry, investments in manufacturing are becoming less interesting, so the 13th FYP will focus on structural reforms and more opening up in the service sector.

Indeed, China's ageing society should be looked at as a positive point, especially by foreign and Chinese SMEs, a sort of second demographic dividend of retirees driving a boom in the health and tourism industries. “There are many investment opportunities related to an ageing society. Opportunities that are open to all parties,” he added.

CONCLUSION

Overall, both developed and developing countries have benefitted from a globalised economy, concluded Vice-President Cai. “We do not need competition between our economies, every country has its role to play,” he said. “Complementarity is more important than competition and so China is trying to play a more complementary and positive role in this world system.”

So how does this translate to opportunities for European businesses and investments? Yao

noted that Chinese negotiations with the EU on a bilateral investment treaty, having now completed eight rounds, are following the highest standards and that commitment on both sides is strong.

“Though we have yet to reach a comprehensive agreement, this bilateral investment treaty is very important,” he said. “It will greatly benefit EU enterprises and increase their speed of entry into Chinese markets.”

Another sensitive area in EU-China relations is the question of whether or not the EU will confer market economy status on China. As the controversial December 2016 deadline for a decision on this status approaches, **“the question of China’s market economy status has become a political, as much as an economical, decision”**, Yao concluded. **“We would like to see the EU ratify this status in the near future.”**

“Either way,” Islam said, “trade between China and the EU has become so important that it is perhaps best if we do not focus too hard on some of the bumps in the road. China matters for the EU and we wish the best for such an important economic partner.”

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