

13th Five-Year Plan: What to Expect from China

The 13th Five-Year Plan (FYP) - a blueprint for China's economic and social development from 2016 to 2020 was approved by the 12th National People Congress (NPC) on March 16, 2016ⁱ. With overarching principles of innovation, coordination, green development, opening up and sharing, which represent the theory of development of state leadership of China and firstly announced in the 18th National Congress of the Communist Party of China (CPC), the plan strives to build a "moderately well-off society", by sustaining economic growth with equal emphasis on environment protection, as well as promoting inclusive development (see Table 1 for major targets).

With the wide range of objectives the plan intends to achieve, what will be different versus the past? What are the implications for other countries? The issue brief purports to answer these questions.

What is different from the last FYP?

Domestic Economy

China has set the target of Gross Domestic Product (GDP) annual growth rate to be at least 6.5% in the next five years. Though seemingly low compared to the growth rate of 7.8% achieved in the 12th FYP period, this still places China the 28th fastest growing in the world in 2015, according to the International Monetary Fund (IMF). The target is based on a projection of the "new normal", which emphasizes change, structural optimization and transition of China's economy. The target is to be attained by further modernising agriculture, the development of new and high-end industries, as well as increasing the share of the service industry in the economy. The service sector currently accounts for 50.5% of China's GDP. The target is backed up by major initiatives such as "Made in China 2025" and the "Internet Plus".

In addition, the so-called "*supply-side reform*" is one of the priority tasks of the 13th FYP. It targets China's manufacturing sector, and aims to reduce overcapacity, inventories, de-leverage, lower costs and shore up weak growth areas. It is necessary in the context of rising labour costs in China alongside an ageing workforce. At the same time, this has and will create tensions - as workers in traditional industries are laid-off. Vocational education and re-training will be key.

Finally, increasing consumption in China is seen as key to growth. In 2015, consumption contributed 66.4% to economic growth, more than investment. But for this to happen, cheap goods will need to continue to be produced - if not in China, then elsewhere.

Inequality and Poverty

The 13th FYP has a strong focus on inequality and poverty. With regard to the former, disparities in China have been widening in recent years. For instance, in 2013, China's Gini coefficient - a well-used measure of income distribution - was 0.73, up from 0.45 in 1995. In 2014, the urban-rural ratio of disposable income per capita was around 3: 1. Thus, for the first time, narrowing income inequality has been made one of

the umbrella objectives of the 13th FYP.

Specifically, China's middle-income class is to be significantly increased - from the current 19%ⁱⁱ of the population. A variety of policy measures are proposed to do so, including introducing a universal income tax system to complement the existing scheduled income tax. This will entail the establishment of a huge database containing information on individual's income and assets.

Another prominent target in the 13th FYP is to eradicate extreme rural poverty in China by 2020; that is to help the remaining 55 million people out of poverty - approximately just over 10 million people per yearⁱⁱⁱ. Like other poverty alleviation targets China has introduced, it is very likely to be achieved. As suggested by the World Bank (WB), China "can reasonably expect the virtual elimination of extreme poverty by 2022"^{iv}. However, the key shift is in how the target will be realized - as the government will use a new "*targeted poverty alleviation strategy*", with components including relocation, increasing e-commerce and tourism, instead of the broader "top-down strategy" which was used under previous plans. As part of this, the government will use a comprehensive national database of the poor. In other countries like the Philippines, such poverty databases have been similarly established. However, in China, the database is likely to be used more actively in conjunction with other measures, for example actual fund distribution. In addition, more finance will be devolved to local and provincial governments to administer directly for poverty alleviation. Minimum guarantee subsidies and other social security policies will also be introduced.

Indeed, strengthening China's social insurance system is important in the 13th FYP. In particular, China's basic pension system is facing many challenges. It is not very efficient, yet will be needed more and more as China's population ages, and there are coordination difficulties between local governments in terms of monitoring liabilities, as people migrate across different cities. The plan therefore aims to improve these inefficiencies, alongside expanding the sources of the fund and broadening its investment channels. The overall goal is to increase the ratio of public finance payment submitted by state-owned capital gains to 30% by 2020^v. The payment will be used to protect and improve people's livelihood.

Green Development - including climate change

The 13th FYP has a series of targets for natural resource management - water, soil, air, land, forest and biodiversity. Additionally, for the first time ever in the five-year planning, reduction of Volatile Organic Compounds (VOCs) - a critical component of PM2.5 and ozone emitted from all kinds of industrial process - by 10% and more, is listed on the agenda.

Moreover, climate change mitigation and adaptation continue to be top priorities in the 13th FYP since their adoption in the 12th FYP. Regarding the former, the biggest shift is that China will establish a nation-wide emission trading scheme (ETS) by 2017, which will require a huge number of enterprises in key sectors to report, verify and manage their carbon emissions. The plan also includes an energy consumption target which is to be capped at 5 billion tonnes of coal equivalent by 2020.

Innovation

Innovation is another concept much stressed in the 13th FYP. Three major new shifts will be likely to be seen as a result. First is to raise the self-innovative ability for all. This means re-educating laid-off workers, more higher and tertiary education (as mentioned earlier), encouraging them and others to start and manage their own businesses. Indeed, China lags behind other countries in these areas. For instance, in 2015, China had a gross enrolment rate of 40% in tertiary education, ranking at No.59 globally^{vi}. So this will require much effort. Second is to stimulate more ‘high-end’ innovation, through a series of national science and technology projects. The third shift will be in institutions, administration and the macroeconomic regulatory system^{vii}. This means, for example, even more Public-Private-Partnerships (PPP), and other means to deliver more value for money from government service delivery.

Table 1. Major Targets in 13th FYP Period

Indicator	2015	2020	Average Annual Growth Rate	
Domestic Economy				
GDP (trillion RMB)	67.7	>92.7	>6.5	
Tertiary Industry Value Added (%)	50.5	56	-	
Social Development				
Poverty Population in Rural Area (million)	55.75	0	-	
Basic Pension Insurance Enrolment Rate (%)	82	90	-	
Innovation				
R&D Investment Intensity (%)	2.1	2.5	-	
Patent Ownership per ten thousand population (Number of Items)	6.3	12	-	
Internet Coverage	Fixed Broadband Coverage (%)	40	70	-
	Mobile Broadband Coverage (%)	57	85	-
Natural Resources & Environment				
Energy Intensity Per Unit of GDP (%)	-	-	-15*	
Carbon Intensity Per Unit of GDP (%)	-	-	-18*	
Proportion of Non-fossil Energy in Primary Energy Consumption (%)	12	15	-	
Air Quality	Percentage of Days with Air Quality Rating ‘Good’ or ‘Excellent’ in Cities (%)	76.7	>80	-
	PM 2.5 Density in Cities (%)	-	-	-18*
Reduction of Major Pollutants Emission (%)	Chemical Oxygen Demand	-	-	-10*
	Ammonia	-	-	-10*
	Sulphur Dioxide (SO ₂)	-	-	-15*
	Nitrogen Oxides (NO _x)	-	-	-15*

Note: Figures with * represent cumulative growth rate over the five years.

Source: Xinhua News: 13th Five-Year Plan.

What does the 13th FYP imply for other countries?

There are at least four key international implications of China’s 13th FYP.

First, with regards to China’s economy, while it has slowed down continuously by 2.6% since 2011, a number of factors explain this, including rising labour costs and sluggish global demand after the 2008 financial crisis. It remains to be seen how long the impacts of these forces will persist. Some commentators think that China will be a high-income country by 2020^{viii}. This, and especially China’s growing middle class, will create new markets for other countries to tap into, depending on China’s regulations and openness.

Second, the 13th FYP for the first time refers to the Belt and Road Initiative (BRI) and increased foreign assistance. Ensuring the success of BRI infrastructure investment and activities and demonstrating real results through foreign assistance will be crucial.

Third, the plan relies strongly on other countries increasing their capacity to manufacture cheap goods, including with the support of China to both invest and increase productivity in those markets^{ix}. Yet, will Chinese companies really go abroad in enough numbers and thrive in a foreign market? For the first time, for China to succeed, an enabling environment in other countries will be key.

Fourth, China’s climate target will have global implications. Some commentators have suggested that China’s CO₂ emissions actually peaked in 2014. But even if not, they will almost certainly do so by 2025, given the decreasing role of manufacturing in China^x. While China has conservatively committed to peaking emissions by 2030, any early achievement will be strongly welcomed by the poorest developing countries most at risk of climate change.

Key areas for cooperation to realise the 13th FYP

The 13th 5YP implies a huge number of new shifts - China will certainly write a new chapter of history in its development. Indeed, it will contribute hugely to achieving the newly agreed Sustainable Development Goals (SDGs). Yet, there are nevertheless a few areas ripe for cooperation from others.

The first and foremost is with regards to managing the international implications of the plan, and ensuring as positive outcomes for both China and other countries as possible, as mentioned above.

The second is with regard to the long-term impacts of the new poverty strategy. For instance, will there be adaptation-related services provided for those who are relocated in order to help them establish a sustained livelihood in their new environments? Are there tools available to help evaluate the effectiveness of the poverty reduction strategies? Will the database be accurate enough? Can big data help?

Third, there may be trade-offs across different policy areas, which will be important to avoid. For example, reducing income inequality goes hand in hand with sustained economic growth, as low wages both cause and result from low productivity^{xi}. Looking to the experience of other countries in how they have managed the rewards to labour when making such transitions will be key.

Finally, multiple stakeholders will be key to the delivery of the 13th FYP. The complex strategies require support from the private sector, the public, as well the state. On this and all other challenges mentioned, UNDP, as one of China’s firm partners, will stand ready and work with China to deliver the plan.

This Issue Brief forms part of a series to promote understanding of China’s development issues. The work benefits from Ms. Yuan Zheng, Economist, Mr. Dong Wang, National Development Report Coordinator, as well as Ms. Boxi Yang and Mr. Yunpeng Xiong. For more information, please contact the Economist Team at: economist.cn@undp.org.

ⁱ 13th Five-Year Plan. http://www.gov.cn/xinwen/2016-03/17/content_5054992.htm

ⁱⁱ Goldman Sachs, The Rise of China. <http://www.goldmansachs.com/our-thinking/macroeconomic-insights/growth-of-china/chinese-consumer/>

ⁱⁱⁱ Guangming Daily News. http://news.gmw.cn/2016-04/27/content_19869227.htm

^{iv} Ravallion, M. (2013). How Long Will It Take to Lift One Billion People Out of Poverty? World Bank Policy Research Working Paper 6325. pp. 20.

^v On 13th FYP and China’s Social Security Reform. http://epaper.21jingji.com/html/2015-11/06/content_25315.htm

^{vi} Xinhua News, On the China Higher Education Quality Report (2016). http://www.gov.cn/xinwen/2016-04/07/content_5062041.htm

^{vii} Xinhuanet: Insisting on innovative development, fostering new driving force. http://news.xinhuanet.com/politics/2015-10/30/c_1116996354.htm

^{viii} People.cn: On Middle Income Trap: China’s Case. <http://finance.people.com.cn/n/2015/0914/c1004-27578884.html>

^{ix} Xinhuanet: Press Conference on the 13th Five-Year Plan. http://www.xinhuanet.com/politics/2016th/zhibo/gov_20160306a/

^x Aiming low: Research shows China’s dirtiest days could be over sooner than officials say, 2016. The Economist.

^{xi} Doing less with more: Low wages are both a cause and a consequence of low productivity, 2016. The Economist.