

Dual Circulation Series

Issue 5

– China's 14th Five-Year Plan



2021 session of China's National People's Congress

The 2021 session of the National People's Congress, China's top legislature, started on 5 March and closed on 11 March. The session has discussed and approved the 14th Five-Year Plan (2021-25) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035¹ at its closing meeting on 11 March.

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¹ <http://cpc.people.com.cn/n1/2021/0306/c64387-32044137.html>

Key highlights from the 14th Five-Year Plan

The 14th Five-Year Plan provides the blueprint that will guide China's social and economic development over the 2021-25 period. Below are highlights from the plan:

1. 'Dual circulation' strategy to guide China's development over next five years

The 'dual circulation' strategy will be a key direction for China's development in the coming five years and beyond, according to the 14th Five-Year Plan. China will strive to establish a new growth model that relies primarily on domestic market as the foundation of growth whilst developing external markets as a complement. China will fully utilize resources to empower its domestic economy by stimulating domestic demand, increasing and upgrading consumption, and further investing in technology and innovation efforts. Meanwhile, China will also further open up itself to the world and foster a world-class business environment to attract foreign investment.

2. Tech self-reliance at the top of China's development planning

The 14th Five-Year Plan proposed 'technological independence and self-reliance as the strategic support for national development'. This is the first time that tech self-reliance was given such a high level of prominence in national development planning. In addition, China will implement the innovation-driven strategy and put innovation at the centre of its modernization drive.

In our view, the heavy emphasis on tech self-reliance and innovation indicates China is prepared to rely less on foreign technology amid the China–US decoupling trend.

China's efforts in technological advancement are gaining urgency amid intensifying US sanctions against Chinese tech companies, including banning major Chinese tech companies from buying US technology and components.

3. China to nurture a strong domestic market

China aims to speed up the development of a complete 'domestic demand system'. To nurture a strong domestic market, China will continue to expand domestic demand by spurring consumption and investment. Together with the deepening of supply-side structural reforms and innovation-driven and high-quality supply, it is hoped that new demand will be created and domestic demand further expanded.

Through enhancing technology self-reliance and boosting domestic market, China's growth in the coming years will depend more on the 'domestic circulation' and be less impacted by the external environment, such as the global economic downturn and rising protectionism around the world.

4. China prioritizes quality of growth over speed

For the first time, the 14th Five-Year Plan does not set a specific growth target for 2021-25. Instead, annual GDP growth targets during the five-year period will be set according to circumstances, and the growth rates will be kept 'within a reasonable range'. The GDP growth target for 2021 is set at 'above 6%', according to the *Government Work Report 2021*.

Scrapping the growth target in the 14th Five-Year Plan suggests that China prioritizes quality of growth over speed in its economic development in the coming five years. This also provides the Chinese government with more flexibility to cope with uncertainties at home and abroad.

5. China steps up efforts to protect the environment and improve people's well-being

Despite dropping the economic growth target, the 14th Five-Year Plan stresses indicators in the environmental and social aspects, which is in line with China's mission to improve the environment and people's livelihood.

China aims to make significant progress in promoting green development and building an ecological civilization. The 14th Five-Year Plan entails a number of 'obligatory' indicators on energy conservation, carbon emission, air quality, water quality, and forest coverage. For example, echoing China's latest announcement of achieving 'carbon neutrality' by 2060, the plan calls for controlling carbon emissions. (See Appendix for the full list of indicators for the 14th Five-Year Plan period.)

China makes great efforts to further improve the well-being of the people. It aims to achieve fuller and higher-quality employment. It will also work to provide more equitable access to basic public services such as education and public health.

Implications for foreign enterprises

1. China's steady growth continues to present business opportunities

We expect that China will continue to attain robust economic growth over the coming five years and beyond. China's policies to develop indigenous technology, spur innovation, expand consumption and further open up itself to the world will also boost the country's long-term growth momentum and help the Chinese economy to become more resilient. As the fastest growing major economy in the world, China still offers the best opportunity for any foreign companies looking for long-term business growth.

2. 'Dual circulation' strategy will further boost China's consumption boom

Under the 'dual circulation' strategy, China will seek to nurture a strong domestic market. China's huge consumer market is expected to expand further in the coming years with the implementation of the 'dual circulation' strategy and other consumption-boosting policies.

As China's growth becomes increasingly driven by domestic consumption, foreign enterprises will find new openings for business growth, especially with the upgrading of consumption to include more sophisticated, higher-value products and services.

3. A more pro-business environment will be conducive to business growth

During the 14th Five-Year-Plan period, China will foster a world-class business environment, which is based on market principles, governed by law and up to international standards. China will adopt the 'competitive neutrality' principle, which treats all types of market entities equally. It will also improve the property rights system.

By creating a rule-based business environment, China will level the playing field for foreign investors. Foreign businesses will find greater access to China market while enjoying more equal treatment and better legal protection.

4. Innovation and digitalization push will provide opportunities for foreign businesses

Innovation and digitalization are at the core of China's current development plans. China will leverage innovation and digital transformation to drive progress in social and economic development.

Additional preferential policies and huge investments are expected in digital economy, industrial digitalization, smart manufacturing, FinTech/TechFin, and artificial intelligence in the coming years. These offer an opportunity for innovation-driven and digital-native foreign enterprises to establish, grow and develop their business in China.

Appendix: Main indicators of economic and social development for the 14th Five-Year Plan period

Category	Indicator	2020	2025	5-year average / [cumulative totals] ¹	Type of indicator
Economic development	GDP growth (%)	2.3	–	Kept within a reasonable range and annual targets will be set according to circumstances	Anticipatory
	Overall labour productivity growth (%)	2.5 ²	–	Higher than GDP growth	Anticipatory
	Urbanization rate (%)	60.6 ³	65	–	Anticipatory
Innovation-driven development	Growth in R&D expenditure (%)	–	–	> 7. Aim for a higher share in GDP than under the 13 th Five-Year Plan (2.2% of GDP)	Anticipatory
	Number of high-value patents per 10,000 people	6.3	12	–	Anticipatory
	Digital economy as a share of GDP	7.8	10	–	Anticipatory
People's well-being	Growth in disposable income per capita (%)	2.1	–	In line with GDP growth	Anticipatory
	Surveyed urban unemployment rate (%)	5.2	–	< 5.5	Anticipatory
	Average length of education received by the working-age population (years)	10.8	11.3	–	Obligatory
	Number of licensed physicians per thousand people	2.9	3.2	–	Anticipatory
	Basic pension insurance coverage (%)	91	95	–	Anticipatory
	Nurseries for infants under 3 years old per thousand people	1.8	4.5	–	Anticipatory
	Average life expectancy (years)	77.3 ³	–	[+1]	Anticipatory
Green development	Reduction in energy consumption per unit of GDP (%)	–	–	[13.5]	Obligatory
	Reduction in carbon dioxide emissions per unit of GDP (%)	–	–	[18]	Obligatory
	Days of good or excellent air quality in cities at or above prefecture level (% of the year)	87 ⁴	87.5	–	Obligatory
	Percentage of surface water with quality at or better than Grade III	83.4 ⁴	85	–	Obligatory
	Forest coverage (%)	23.2 ³	24.1	–	Obligatory
Security	Comprehensive grain production capacity (million metric tons)	–	> 650	–	Obligatory
	Comprehensive energy production capacity ⁵ (billion metric tons of coal equivalent)	–	> 4.6	–	Obligatory

- Notes: 1. Figures in square brackets are five-year cumulative totals.
2. Estimate for 2020.
3. Figures for 2019.
4. The 2020 figures were significantly higher than normal years due to the COVID-19 outbreak.
5. It refers to the sum of the production capacity of coal, oil, natural gas, and non-fossil energy.

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises over 30,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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