

Macro Note

China: 14th 5-Year Plan (2021-2025) and Long-Range Objectives Through the Year 2035

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The Fifth Plenary Session of the 19th Central Committee of the Communist Party of China (CPC) concluded on 29 Oct 2020. It adopted the committee's proposals for the formulation of the 14th Five-Year Plan (2021-25) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035.

Like the 13th 5-Year Plan (2016-2020) before, the Party's fifth plenary session established the framework and overarching objectives for the 5-year plan and major goals for the next 15 years, with the release of the proposals ([CPC Central Committee's development proposals set long-range goals through 2035, 3 Nov 2020, Xinhua News](#)).

These include:

- 1) China's economic and technological strength, and composite national strength will increase significantly. A new stride will be made in the growth of the economy and the per capita income of urban and rural residents. Making major breakthroughs in core technologies in key areas, China will become a global leader in innovation;
- 2) New industrialization, IT application, urbanization, and agricultural modernization will be basically achieved. China will finish building a modernized economy;
- 3) The opening-up will reach a new stage with substantial growth of the country's strengths for participating in international economic cooperation and competition;
- 4) The per capita GDP will reach the level of moderately developed countries. The size of the middle-income group will be significantly expanded. Equitable access to basic public services will be ensured. Disparities in urban-rural development, in development between regions, and in living standards will be significantly reduced;

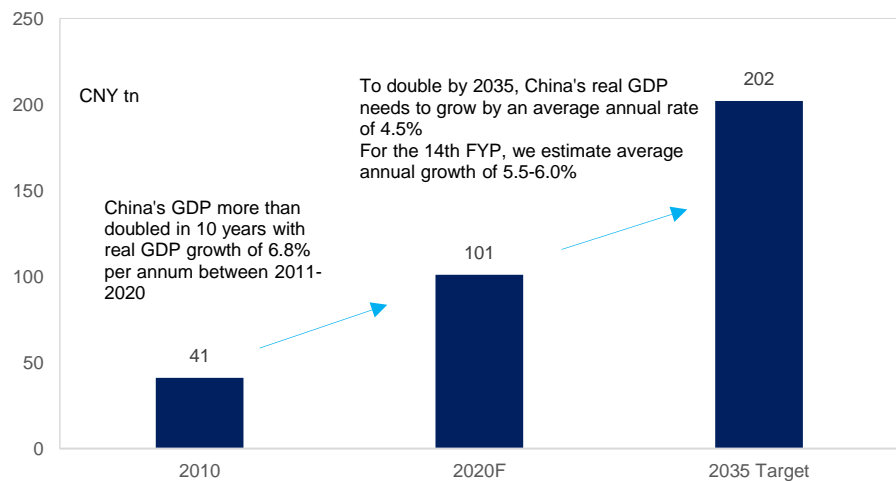
While there was no explicit growth target set for the 14th 5-Year Plan in the official document, President Xi Jinping had said that the Chinese economy can double in size by 2035 which implies an annual growth rate of around 4.5% for the next 15 years. This compares with the 13th 5-Year Plan to double the 2010 nominal GDP in 10 years by 2020. We believe the 2035 target is achievable despite the headwinds from an ageing population and maturing economy.

Factoring in 1.9% GDP growth for 2020, the average annual growth rate in the 2016-2020 period would be around 5.7% compared to the target of 6.5%. We believe the average growth for the 14th 5-Year Plan (2021-2025) may not be lower than in the current 5-Year Plan, bumped up by an exceptionally high V-shaped rebound expected in 2021 from the COVID-19 recovery as well as ultra-loose monetary and fiscal policies globally which may stay in place for some time. We estimate that the GDP growth in 2021 will reach 8.2% from a low base in 2020, assuming that an effective vaccine will become available next year. As such, we foresee that an average growth of 5.5-6.0% for 2021-2025 is achievable even if China's growth rate slows subsequently towards 5% by the end of the 5-year plan period.

The lack of quantitative targets in the 14th 5-Year Plan is in line with expectation that the Chinese government will place increasing attention on the quality and composition of economic development. More details on the economic outlook and implementation of the new 5-Year Plan are expected at next year's National People's Congress (NPC) in March 2021.

China: Nominal GDP To Double By 2035

Source: Macrobond, UOB Global Economics & Markets Research



Looking back at the 13th 5-Year Plan (2016-2020)

The target to double farmers' income has been achieved ahead of schedule, according to the latest data from the country's Ministry of Agriculture and Rural Affairs. In 2019, the per capita disposable income of rural residents exceeded 16,000 yuan (almost US\$2,400), doubling 2010's figure one year ahead of schedule.

During China's 13th Five Year Plan (2016-2020), the per capita disposable income of Chinese residents rose from 23,800 yuan (about US\$3,557) in 2016 to 30,700 yuan in 2019. The growth rate was faster than the average annual growth rate of per capita GDP in the same period.

In 2019, registered poor population in China was reduced to 5.51 million, compared with 55.75 million in 2015 and the incidence of poverty fell from 5.7% to 0.6% during the period.

Dual circulation strategy

One of the key principles that guides China's next-stage development, according to the post-session communique, is the dual circulation strategy.

What is the dual circulation strategy?

The idea of a dual circulation strategy was first mentioned by President Xi Jinping at a meeting of the Political Bureau of the Central Committee of the Communist Party of China in May.

Broadly, the dual circulation strategy has two components. The internal circulation refers to domestic economic activities of internal consumption, production and distribution. The internal circulation will be the main anchor for the economy.

The other component is external circulation, which refers to the interaction between China's domestic economic links with the outside world, through the deepening of connectivity and linkages between domestic components (consumption, production, and distribution) and outside of China via channels, including trade, services, investment, capital, financial, cultural, and people flows/exchanges. Therefore, this design of dual circulation would ensure the continuation of China's opening up, as a closed system or closed loop would not be feasible.

With China's rise in income and wealth, the other critical factors include innovation and the digital economy, such as the developments of Artificial Intelligence, big data and 5G, among others, that will be part of the dual circulation strategy.

Why the dual circulation strategy?

Traditionally, policymakers have not placed too heavy focus on the contribution of domestic expenditure to economic growth but this has changed given the rapid rise in domestic purchasing power and an increasingly hostile external environment. The middle-income group in China is around 400 million out of a population of 1.4 billion and this will continue to rise as China's economy advances.

In the near-term, external environment is likely to remain under pressure and will take some time to return to pre-pandemic levels of activities, as the world is expected to have to live with COVID-19 even with the availability of a safe and effective vaccines as soon as by 2021.

With China deemed as "threat of a century", [in the words of the US national security adviser Robert O'Brien](#), it is conceivable that US-China relations may remain tense for some years to come. Therefore, from China's point of view, it is only realistic to manage the risks of potential disruption and "decoupling" of the country's largest exports destination.

One way is to leverage on the strengths of the domestic economy and to further expand and intensify cooperation with other large markets and regions. ASEAN and Belt & Road Initiative (BRI) countries will fit in this narrative given their geographic proximity and significant growth potential.

Will the dual circulation strategy work?

China's economy has progressed tremendously over the past two decades, becoming the second largest economy in the world and accounting for 16.4% share of total global output.

At the same time, increases in personal income, urbanization, eradication of poverty, heavy investment in research and development (R&D) have laid the foundation for a greater role of domestic consumption, to drive the internal circulation part of the dual circulation strategy. Meanwhile, the structure of the economy will start to move towards greater share of private consumption as capital spending will tilt away from heavy capital expenditure items towards "new investment" on IT, digitalization, innovation and higher value added products and services, as well as improving the quality of life (e.g. education, health, environmental related sectors) to achieve objectives of the 2035 plan.

Even in the grips of the COVID-19 pandemic globally, trade and investment flows continue to show close linkages between China and the world, especially with ASEAN and BRI countries. As China is the world's largest manufacturer, with output value in 2018 equivalent to the following three largest (the US, Japan, and Germany), this will be a key factor in linking the country with the rest of the world in the dual circulation strategy.

As such, there is high probability that the dual circulation strategy will be pursued in the next 5 years as China leads global recovery from the COVID-19 pandemic, by leveraging on its economic size, growth, and increased opening of its own market.

Dual circulation strategy: Domestic drivers

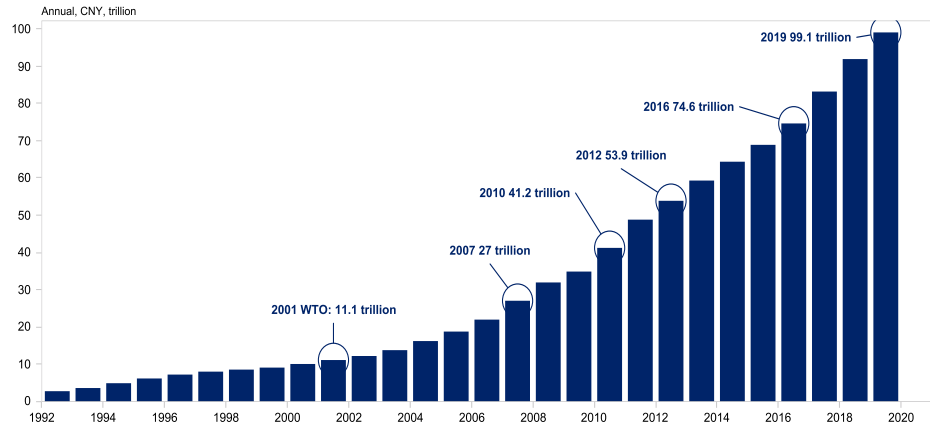
Size of economy

The size of China's economy has doubled from 2010, as envisioned in the 13th 5-Year Plan (2016-2020).

China: Nominal GDP

Source: Macrobond, UOB Global Economics & Markets Research

13th 5Y Plan Target: Double the size from 2010



Size of economy

China is ranked the second largest economy in the world. The US economy was about 2.5 times that of China in 2010, and came to just about 50% larger by 2019.

World's Largest Economies By Size Nominal GDP In USD, 2019

Source: Macrobond, UOB Global Economics & Markets Research

Data: IMF	USD, trillion	2019	% chg 2010-2019	2010
	0 5 10 15 20			
United States	▲	21.4 trillion	43.0	15 trillion
China	▲	14.4 trillion	138.7	6.03 trillion
Japan	▲	5.08 trillion	-10.9	5.7 trillion
Germany	▲	3.86 trillion	13.5	3.4 trillion
ASEAN 10	▲	3.19 trillion	66.2	1.92 trillion
India	▲	2.87 trillion	67.9	1.71 trillion
United Kingdom	▲	2.83 trillion	14.3	2.48 trillion
France	▲	2.72 trillion	2.6	2.65 trillion
Italy	▲	2 trillion	-6.4	2.14 trillion
Brazil	▲	1.84 trillion	-16.7	2.21 trillion
Canada	▲	1.74 trillion	7.4	1.62 trillion
Russia	▲	1.7 trillion	4.2	1.63 trillion
South Korea	▲	1.65 trillion	43.9	1.14 trillion
Spain	▲	1.39 trillion	-2.0	1.42 trillion
Australia	▲	1.39 trillion	10.8	1.25 trillion

Place in the world

China's economy is also accounting for a larger share (and influence) in the global economy. China accounts for 16% of the world's economy, up from about 9% share 10 years ago.

World's Largest Economies By Size % Share Of Total, 2019

Source: Macrobond, UOB Global Economics & Markets Research

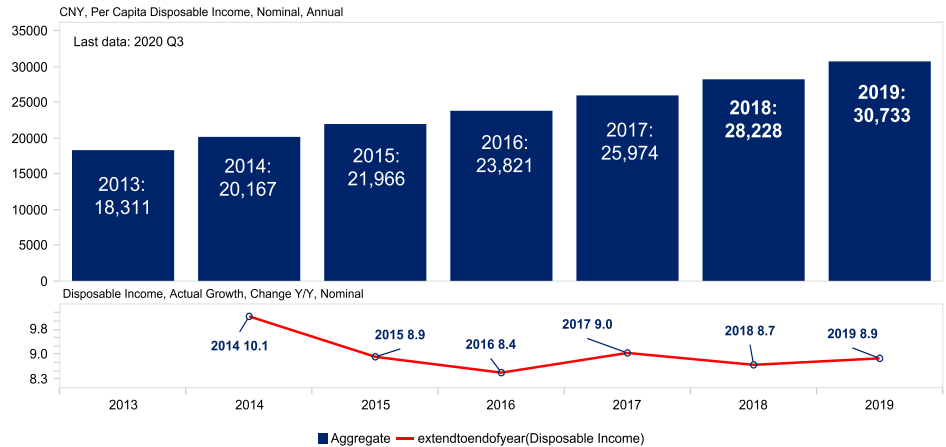
Data: IMF	% share of global economy	2019	% pt chg 2010-2019	2010
	0 5 10 15 20 25			
United States	▲	24.5	1.8	22.7
China	▲	16.4	7.3	9.1
Japan	▲	5.8	-2.8	8.6
Germany	▲	4.4	-0.7	5.1
ASEAN 10	▲	3.6	0.7	2.9
India	▲	3.3	0.7	2.6
United Kingdom	▲	3.2	-0.5	3.7
France	▲	3.1	-0.9	4.0
Italy	▲	2.3	-0.9	3.2
Brazil	▲	2.1	-1.2	3.3
Canada	▲	2.0	-0.5	2.4
Russia	▲	1.9	-0.5	2.5
South Korea	▲	1.9	0.2	1.7
Spain	▲	1.6	-0.6	2.2
Australia	▲	1.6	-0.3	1.9

Rising income

Disposable income has risen by more than 50% between 2015-2019, to RMB30,733, which will help drive domestic consumption.

China, Per Capita Disposable Income: National, Urban & Rural Households

Source: Macrobond, UOB Global Economics & Markets Research



Rising income

China's per capita income has seen significant increase in the last two decades, but it remains distant to that of the US on absolute terms.

Changes In Scale Of ASEAN Per Capita GDP (In Nominal USD)

Source: Macrobond, UOB Global Economics & Markets Research

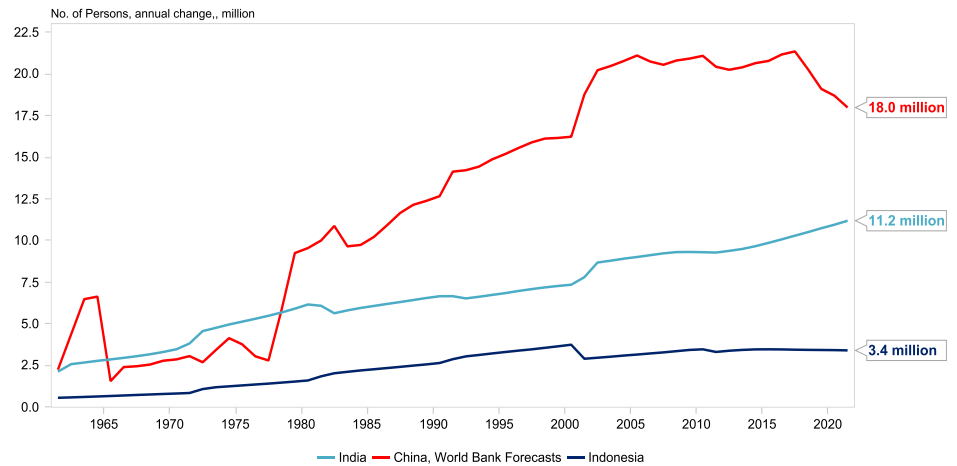
IMF WEO Last: 13 Oct 2020	Rate of change since %, 1999, sort desc	% Change	2019 USD	1999 USD
China	1,770	1,770	10,287	865
Burma (Myanmar)	1,543	1,543	1,269	118
Laos	1,109	1,109	2,658	270
Vietnam	997	997	3,415	478
Cambodia	665	665	1,621	296
Indonesia	540	540	4,178	842
India	413	413	2,168	552
Thailand	384	384	8,167	2,050
Malaysia	297	297	11,213	3,763
Philippines	290	290	3,524	1,254
Singapore	235	235	65,234	21,797
Hong Kong	133	133	48,627	24,969
United States	120	120	65,298	34,514
Brunei	101	101	31,087	15,603

Urbanisation

The increase in urbanization rate and urbanized population lay the foundation for firmer and more sophisticated domestic demand

World Bank, Urban Population Estimates & Projections

Source: Macrobond, UOB Global Economics & Markets Research

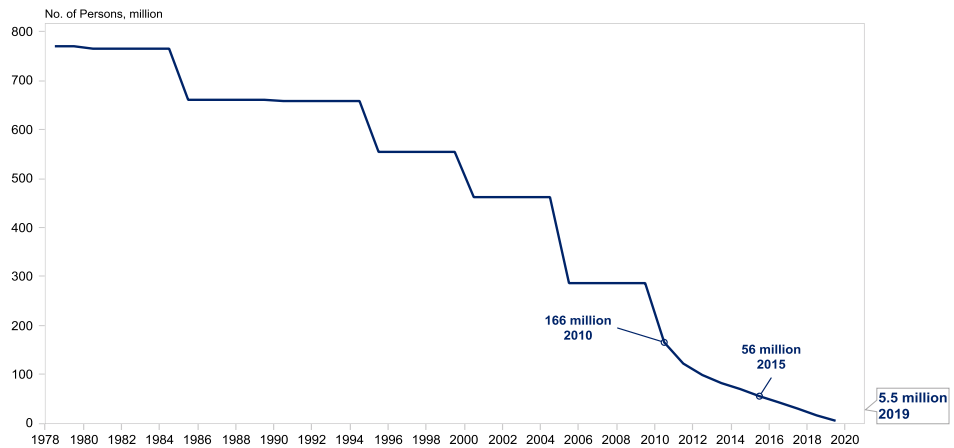


Poverty

More than 50 million people had been lifted out of poverty during the 13th 5-Year Plan period.

China: Poverty Statistics, People Under Poverty, Rural (In 2020 Standard)

Source: Macrobond, UOB Global Economics & Markets Research

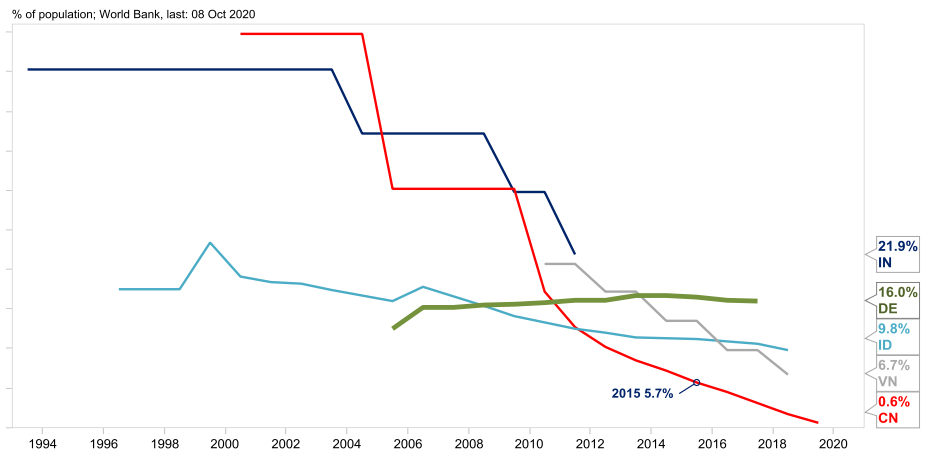


Poverty

The lifting out of all rural residents living below poverty line, as announced by President Xi Jinping at a United Nations session on 22 Sep 2020, paves the way for potential domestic demand ahead.

Poverty Rates, Poverty Headcount Ratio At National Poverty Line, % Of Population, Weighted Average

Source: Macrobond, UOB Global Economics & Markets Research



Innovation

The strong drive for research and development (R&D) will help raise innovation capability, and improve efficiency, quality, and value add of economic growth.

Total Gross Domestic Expenditure On R&D, PPP

Source: Macrobond, UOB Global Economics & Markets Research

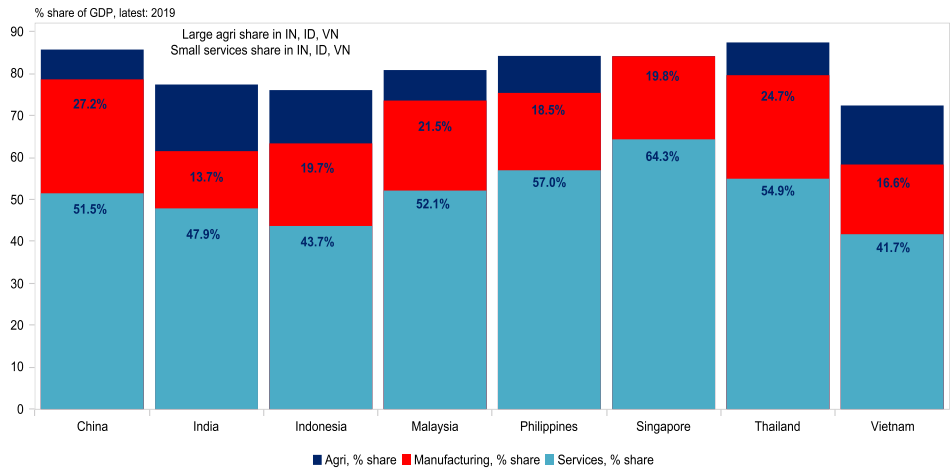
UNESCO	USD, trillion		Latest	10Y ago
Last: 24 Jun 2020	0	5		
World	▲		21.9 trillion	13.2 trillion
United States	▲		5.82 trillion	4.06 trillion
China	▲		5.54 trillion	1.85 trillion
Japan	▲		1.77 trillion	1.37 trillion
Germany	▲		1.38 trillion	827 billion
South Korea	▲		996 billion	460 billion
India	▲		682 billion	408 billion
France	▲		668 billion	496 billion
United Kingdom	▲		521 billion	364 billion
Brazil	▲		411 billion	289 billion
Russia	▲		401 billion	347 billion
Italy	▲		352 billion	249 billion
Canada	▲		279 billion	251 billion
Spain	▲		231 billion	203 billion
Australia	▲		229 billion	191 billion

Services

China to gravitate towards services sector, although manufacturing sector is expected to continue to have a substantial share.

Asia: Structure Of Economy, By Main Value Added Sectors (% Share Of GDP)

Source: Macrobond, UOB Global Economics & Markets Research



Consumption (Retail Sales)

Size of retail sales market in China is approaching that of the US, and is poised to gain further.

Size Of Domestic Retail Sales Market (Nominal)

Source: Macrobond, UOB Global Economics & Markets Research

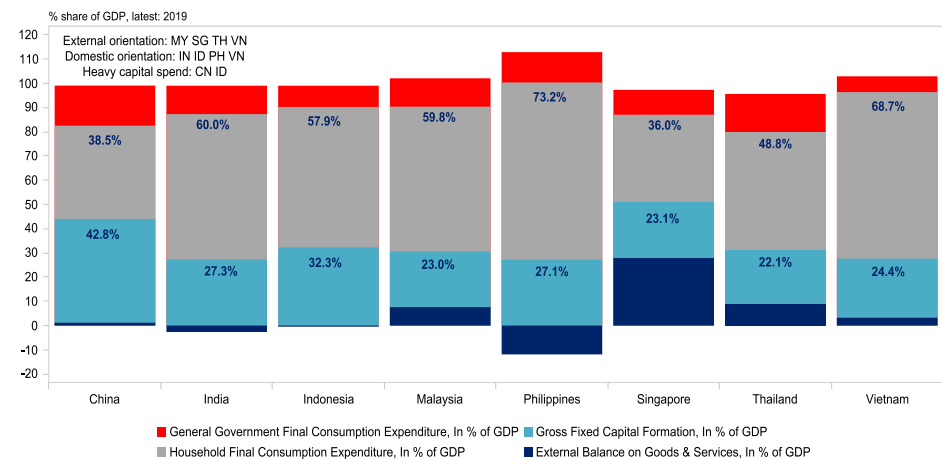


Consumption

Personal consumption's share to gain, while capital expenditure focuses on "new investments" such as digitalization. Note that reliance on trade is a small for China.

Asia: Structure Of Economy, By Expenditure Components (% Share Of GDP)

Source: Macrobond, UOB Global Economics & Markets Research



Dual circulation strategy: Key connectivity factors with the world

Manufacturing

China's role as the world's manufacturing centre will remain unchallenged for some years, and this will be the key factor in the dual circulation strategy.

World's Largest Manufacturing Value Added Economies

Source: Macrobond, UOB Global Economics & Markets Research

World Bank Latest: 2018	Annual, USD, trillion	Latest USD	10Y ago USD
China	3.9	3.9 trillion	1.61 trillion
EU	2.32	2.32 trillion	2.04 trillion
United States	2.17	2.17 trillion	1.7 trillion
Japan	1.03	1.03 trillion	1 trillion
Germany	748	748 billion	601 billion
ASEAN	629	629 billion	381 billion
South Korea	417	417 billion	243 billion
India	395	395 billion	230 billion
Italy	298	298 billion	301 billion
France	267	267 billion	285 billion
United Kingdom	243	243 billion	221 billion
Russia	223	223 billion	158 billion
Indonesia	221	221 billion	142 billion
Mexico	218	218 billion	136 billion
Brazil	174	174 billion	218 billion
Spain	155	155 billion	172 billion
Canada	152	152 billion	143 billion
Turkey	143	143 billion	97.7 billion
Thailand	138	138 billion	83 billion
Switzerland	132	132 billion	101 billion

Trade

China is the world's largest trading nation, and the value of total trade has grown by more than 50% in a decade. ASEAN is the world's third largest trading bloc.

Total Trade: World's Top 10, Current Prices

Source: Macrobond, UOB Global Economics & Markets Research

Source: UNCTAD Annual; 2019	USD, trillion	2019	% chg 2010-19	2010
China	4.58	4.58 trillion	53.9	2.97 trillion
United States of America	4.21	4.21 trillion	29.6	3.25 trillion
ASEAN	2.81	2.81 trillion	40.4	2 trillion
Germany	2.72	2.72 trillion	17.7	2.31 trillion
Japan	1.43	1.43 trillion	-2.5	1.46 trillion
Netherlands	1.34	1.34 trillion	23.3	1.09 trillion
France	1.23	1.23 trillion	8.0	1.13 trillion
United Kingdom	1.17	1.17 trillion	15.7	1.01 trillion
China, Hong Kong SAR	1.11	1.11 trillion	32.1	842 billion
Korea, Republic Of	1.05	1.05 trillion	17.3	892 billion

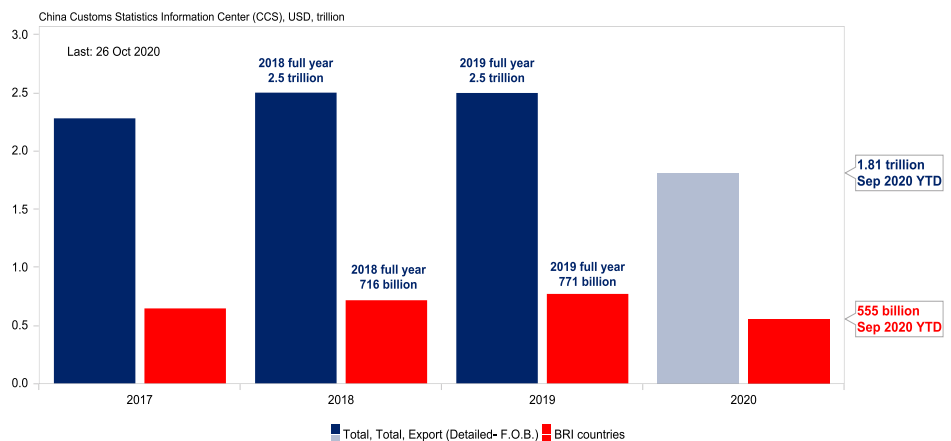
■ 2019 ▲ 2010

Trade

China's trade with BRI countries forged ahead in 2020 despite disruptions from the global COVID-19 pandemic.

China, Foreign Trade, Export, USD

Source: Macrobond, UOB Global Economics & Markets Research



Trade

China's trade with ASEAN continued despite disruptions from the global COVID-19 pandemic, in contrast to the declines in demand in the US and EU.

China: Top Exports Destinations (YTD)

Source: Macrobond, UOB Global Economics & Markets Research

	USD, billion	Latest YTD	% chg y/y	12M ago YTD	Avg 2017/19 Trump	Avg 2009/16 Obama
United States		310 billion	-0.7	312 billion	229 billion	176 billion
European Union (EU)		279 billion	-11.9	317 billion	211 billion	173 billion
ASEAN		267 billion	4.8	255 billion	166 billion	108 billion
Hong Kong		186 billion	-7.6	202 billion	146 billion	148 billion
Japan		103 billion	-2.7	106 billion	75.5 billion	71.2 billion
South Korea		80.7 billion	-1.3	81.7 billion	57.1 billion	45 billion
Vietnam		78 billion	12.2	69.6 billion	43.1 billion	21.5 billion
Germany		61.9 billion	4.5	59.2 billion	40.2 billion	35.2 billion
Netherlands		55.3 billion	4.2	53.1 billion	36.7 billion	28.9 billion
United Kingdom		49.8 billion	7.8	46.3 billion	30.5 billion	24.5 billion
India		45.2 billion	-19.8	56.3 billion	38.8 billion	25.3 billion
Taiwan		43.1 billion	8.2	39.8 billion	25.5 billion	19.2 billion
Singapore		40.7 billion	7.7	37.8 billion	26.1 billion	21.7 billion
Malaysia		38.4 billion	2.5	37.4 billion	24.2 billion	18.4 billion
Australia		36.9 billion	7.0	34.5 billion	23.5 billion	17.6 billion

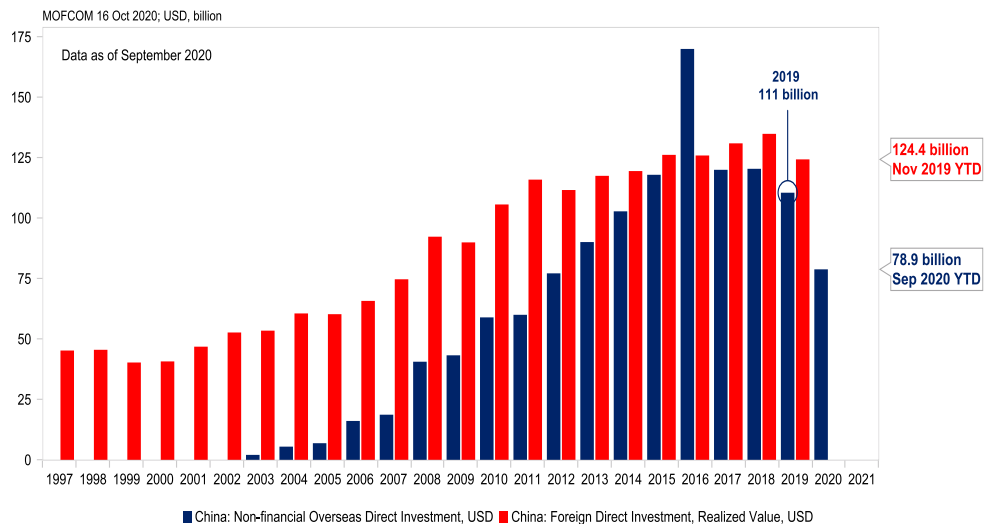
■ Latest ▲ 12M ago

Investment flows

From a net recipient in the early years of opening up, China's ODI flows have increased significantly since 2015 as two-way investment flows become the new norm.

China: Foreign Direct Investment (FDI) And Outward Direct Investment (ODI)

Source: Macrobond, UOB Global Economics & Markets Research

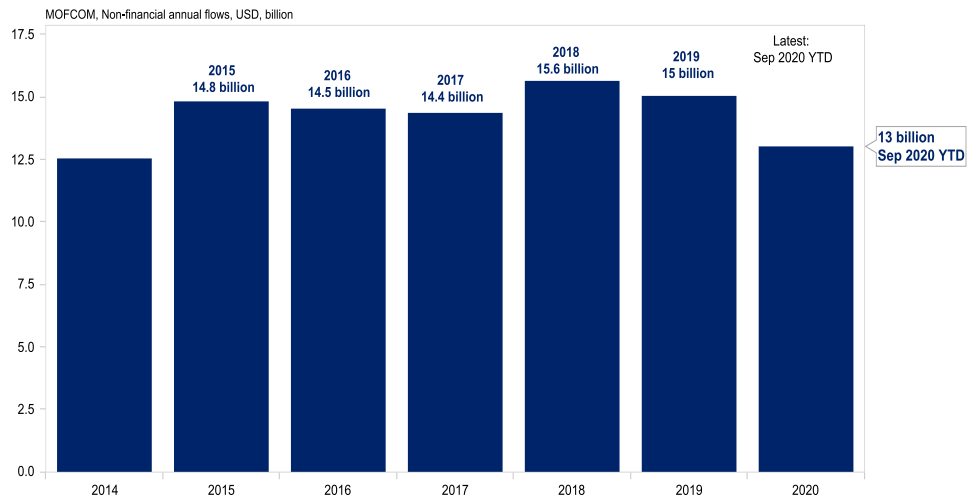


Investment flows

ODI flows to BRI countries remained steady so far in 2020, despite the global COVID-19 pandemic

China: Overseas Direct Investment (ODI) Into Belt & Road Countries

Source: Macrobond, UOB Global Economics & Markets Research



Investment flows

China, together with Hong Kong SAR, is one of the largest investors in ASEAN, due to the growth potential in the region.

ASEAN Foreign Direct Investments Inflows (Top 15 Sources)

Source: Macrobond, UOB Global Economics & Markets Research

Source: ASEANstats Annual	USD, billion	2019	Avg 14-18
	0 5 10 15 20 25		
United states [US]	24	24 billion	13 billion
Total Intra-ASEAN	22	22 billion	24 billion
Japan [JP]	20	20 billion	16 billion
Hong Kong [HK]	11	11 billion	8.1 billion
Total EU [EU]	9.3	9.3 billion	22 billion
China [CN]	9.1	9.1 billion	10 billion
United Kingdom [GB]	7.7	7.7 billion	5 billion
Netherlands [NL]	5.1	5.1 billion	6.3 billion
Switzerland [CH]	3.6	3.6 billion	926 million
Luxembourg [LU]	3.5	3.5 billion	6.2 billion
Canada [CA]	3.2	3.2 billion	1.1 billion
Australia [AU]	2.7	2.7 billion	1.7 billion
Korea [KR]	2.6	2.6 billion	5.4 billion
Taiwan [TW]	2.3	2.3 billion	2.6 billion
India [IN]	2	2 billion	1.2 billion

■ 2019 ▲ Avg 14-18

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