

China's Low Growth

What Does It Mean for the World?



What's behind China's Five-Year Plan (2021-25) as GDP growth slows? In a world turned upside down by the pandemic with Great Power rivalries, the 14th Five-Year Plan is a bold blueprint of how Beijing is getting prepared to realize her long-cherished China Dream of national renaissance, against all odds.

A piece in *Foreign Policy* dated March 11, 2021 by Alice Han and Eyck Freymann decries China's new Five-Year Plan (2021-25) as a disappointment. As domestic problems mount, Beijing's planners are thought to be lowering expectations, eschewing a definitive growth target rate, while perennial challenges such as market reforms, debt, inequalities, aging demographics, migrant workers, and carbon emissions remain largely evaded.

Growth rates must first be put into proper perspective. To grow a hypothetical economy of ten dollars by 10% is easy. Double-digit growth for an economy of the size of China or the US is a pipedream.

Thanks to vastly different performances during the pandemic, China's economy is expected to overtake America five years earlier, by 2028, according to Britain's Centre for Economics and Business Research.

However, China is now facing unprecedented headwinds, both domestic and international.

Worsening demographics, environmental degradation, water scarcity, and food security are raising alarm bells. With US technological stranglehold, some tech giants like Huawei are struggling. The Biden administration is showing no sign of a let-up in a bipartisan "all-of-government" pushback against China, save well-defined limited opportunities for possible cooperation.

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As China grows bigger and stronger, its behavior both domestic and international is provoking widespread concerns, not least Great Power rivalry with the US. Successive PEW research reports show China's global image is plummeting.

Addressing these epochal challenges, a pains-taking Five-Year Plan (2021-25) was endorsed at the "Two Sessions" (*Lianghui*), the back-to-back meetings of the Chinese People's Political Consultative Conference (CPPCC), and the National People's Congress (NPC), ending on 11 March.

The plan is a historic milestone in a trajectory towards the "two centenary goals"—to become a moderately well-off economy by 2021, the centenary of the Chinese Communist Party (CCP), and to become a "strong, democratic, civilized, harmonious, and modern socialist" higher-income country by 2049, the centenary of the People's Republic of China (PRC).

To take off to a higher plane, quality of growth becomes much more important than quantity. Growth this year is expected to be 6% or higher, a conservative estimate compared with the 8% forecast by most economists.

However, unlike previous Five-Year plans, no formal growth target is set. Nevertheless, to sustain momentum towards becoming a high-income economy by mid-century, annual growth higher than 6.5% is needed. For the world's second-largest economy, this rate should be considered comparatively high, if not ambitious.

President Xi's "2035 Vision" was also endorsed during the Two Sessions. To realize it, the economy is projected to double in size by 2035. This requires annual growth of about 4.7%, seemingly not an unattainable target. If so, in five years, China's economy may overtake the US as the world's largest.

According to the IMF, in per capita income terms, China ranked 73rd in 2019, using Purchasing Power Parity (PPP) measurements. Thanks to its oversized population, China's per capita GDP would perhaps never catch up with America's. However, this in no way hampers China's growing global clout. Absolute size matters: Macao's GDP per capita is multiple ranks above the US.

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quality of people's lives, its environment, its international relations, the role it plays in the global commons, and the attractiveness of its ideology.

China's economy needs indigenous innovation and technology, enhanced productivity, high-end manufacturing competitiveness, greater household income, less reliance on low-end exports and property investments, and a robust pivot towards domestic consumption. These imperatives have spawned a new "dual circular economy" strategy, promoting greater synergy between the domestic and external economies.

According to the Organization for Economic Cooperation and Development (OECD), China has been catching up with advanced countries on science and tech spending. From 2000 to 2018, China's R&D funding had jumped from 0.9 to 2.1% of GDP, or \$302.5 bn—scoring 18th on a global list. However, only

5% was on basic research, compared to 15% in the US.

Total research and development expenditures will grow by more than 7% annually with a particular emphasis on basic research. Seven key areas are identified as priorities to enable China to become a global leader in science by 2035—Artificial Intelligence (AI), quantum information, integrated circuits, brain sciences, genetics and biotechnology, clinical medicine and health care, and deep earth, sea, space and polar exploration.

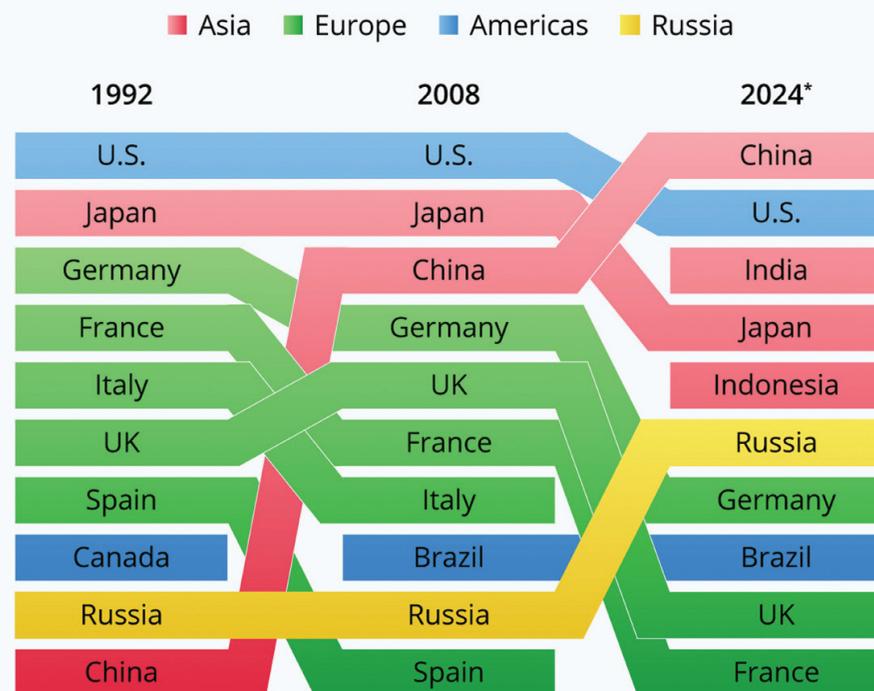
China's innovative capacity is supported by a massive reservoir of human capital. More than 8-9 million university students graduate every year, more than the numbers of the US and India combined. The number of tertiary students surged six-fold from 7.4 million in 2000 to nearly 45 million in 2018. The tertiary enrollment rate has reached 50%. More than 40% of China's graduates are in Science, Technology, Engineering, and Mathematics (STEM). China is second only to the US in the number of scientific journal publications, while its leading universities are climbing up in global rankings.

While adopting a lower profile, the "Made in China 2025" strategy remains very much alive to boost productivity and competitiveness of manufacturing, now 38% of China's GDP. The strategy is to hone leading expertise in ten key high-tech sectors: New information technology, numerical control tools, aerospace equipment, high tech ships, railway equipment, energy saving, new materials, medical devices, agricultural machinery, and power equipment. China plans to invest \$1.4 tn through PPPs in 5th generation 5G networks, Cloud Computing, AI software, autonomous vehicles, automated factories, and the Internet of Things (IoT).

A note of caution was sounded by Miao Wei, a CPPCC delegate who was Minister of Industry and Information Technology for a decade before stepping down last year: "China is at least 30 years away from becoming a manufacturing 'great power'". Basic capabilities

Continental Shift: The World's Biggest Economies Over Time

Countries with the highest GDP on Earth in 1992, 2008 and 2024*



* projection

Source: World Bank and IMF

Image: Statista

are still weak, core technologies are in the hands of others, and the risk of 'being hit in the throat' and having 'a slipped bike chain' has significantly increased," he warned. He also thinks that rejiggering the economy too much at the cost of manufacturing risks losing too many jobs, jeopardizing industrial viability and national security.

President Xi's "2035 Vision" includes a plan to nearly double the nation's 36,000-km high-speed rail lines, already more than two-thirds of the global total, to 70,000 km over the next 15 years. Including high-speed rail, an additional 200,000 km (124,274 miles) of the railway would be built. The plan aims to link towns of at least 200,000 people to the rail network and give cities of 500,000 and above access to high-speed trains. Even the remotest

parts of the nation are to be connected. The urban unemployment rate is to be capped at 5.5%, with labor productivity growth expected to outpace overall GDP growth. The urbanization rate is to be increased from 60.6% in 2019 to 65%, doubling China's consumer middle class to 800 million by 2035. The *hukou* household registration system will be reformed to allow more migrant workers to become urban residents.

According to the World Bank, China has brought more than 800 million people out of extreme poverty since economic reforms in the 1970s. Its extreme poverty rate fell from 66.3% in 1990 to just 0.3% in 2018—accounting for over 60% of global poverty reduction, according to the Centre for Strategic and International Studies.

Following redoubled efforts, China now claims to have lifted all of its people out of extreme poverty, using the poverty line of \$2.30 a day—slightly above the World Bank's lowest threshold of \$1.90. Nearly everyone completes compulsory schooling, matching the average level in high-income countries. There is almost universal access to electricity and safe drinking water. The child mortality rate has plummeted, according to the United Nations.

To ameliorate aging demographics, the statutory retirement age is planned to ease in "a phased manner". Men currently can retire at 60, and female factory workers as early as 50. Female public-sector and white-collar workers can retire at 55. The Two-Child Policy is already a relaxation, but young couples remain wary of the economic costs of raising children.

For the first time, the plan contains a special section for developmental security, with specific reference to food, energy, and financial safety.

China is set to adhere to the 1.8 billion mu (120 million ha.) bottom line of cultivable land to ensure food security. The so-called "three agrarian questions"—the agricultural economy, peasants' livelihood, and rural development—are to be upgraded.

China's overall financial leverage ratio is expected to remain stable in 2021, while vigilance remains high on the continuing problem of local government debt. There is great caution in resorting to the massive fiscal stimulus to avoid creating "asset bubbles". Growth of money supply and total social financing is to be on a par with economic growth.

Regulation of financial conglomerates and fin-tech companies is being stepped up, as evident from the recent clampdown on Ant Financial. On the other hand, big commercial banks are cajoled to maintain at least 30% loan growth to small firms and to extend

loan relief to small businesses hit hard by the pandemic.

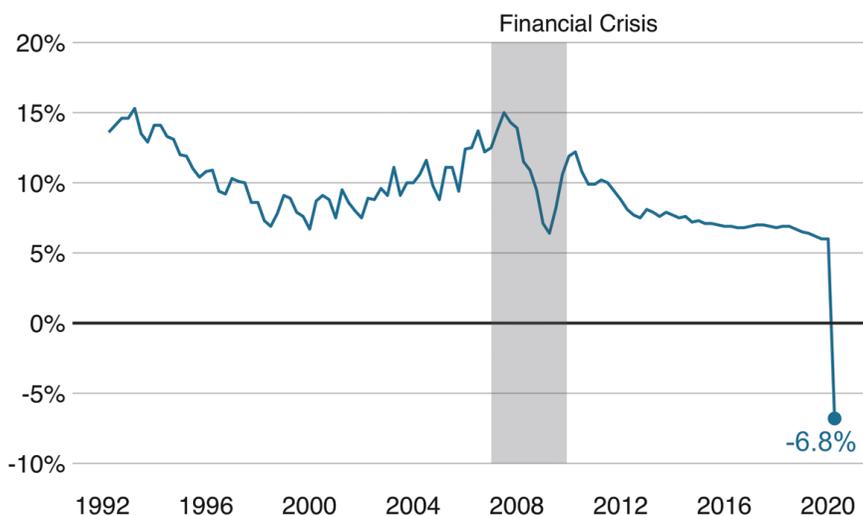
As Yukon Huang and Joshua Levy point out in *Foreign Policy* dated March 10, 2021, since the late 1990s, combined expenditures and investments by the government and state-owned enterprises have been remarkably stable—within a narrow range of 42 to 46% of GDP. In terms of central government spending, the state’s share in the economy is declining, while a vibrant private sector continues to spawn a galaxy of rising commercial stars.

Creating a more level-playing field and better market access for foreign businesses, the national treatment and “negative list” system will be improved, opening up the service industry with legal, policy, and service safeguards for both inbound and outbound investments. Market-oriented reforms will extend to the energy, railway, telecommunications, and public utilities sectors. New opportunities will be created in health, elderly care, childcare, culture, tourism, sports, housekeeping, property, public welfare, and basic service industries.

President Xi has openly pledged peak carbon emission by 2030 and carbon neutrality (net zero emission) by 2060. By 2025, China is to reduce energy intensity by 13.5% from 2020 levels, and carbon intensity by 18%. The country will also boost the share of non-fossil sources in its energy mix to “around 20%”. According to the Na-

Chinese economy shrinks for the first time in decades

Year-on-Year GDP has now fallen into negative territory



Source: China National Bureau of Statistics

Image: BBC

tional Bureau of Statistics, coal provided only 56.8% of total energy consumed by China in 2020, a historic low.

According to Zhang Xiliang, the director of the Institute of Energy, Environment, and Economy at China’s Tsinghua University, China’s carbon emission will peak around 2025, followed by a plateau and then a sharp decline. By 2035, China will see a further 20% reduction in CO2 emissions. By 2050, it could witness more than a 70% reduction, leading to carbon neutrality by 2060. Chinese coal use will

taper off after 2025, with the usage of natural gas peaking at that time and oil consumption peaking around 2030, according to Zhang. He predicted that the contribution of renewables and nuclear power to China’s energy mix will reach 25% by 2030, rising to 80% by 2060.

For China, a greener future is not just blue skies and clean air. It is also energy security. Importing oil from the Middle East, for example, risks passage through the Strait of Hormuz outside Iran, susceptible to international hostilities, as well as the Malacca Strait, a US naval “choke point” outside Singapore. Perceived authoritarianism notwithstanding, with a remarkable economic track record, the Communist Party remains highly legitimate and popular among the Chinese people, scoring one of the highest global ratings in terms of people’s support of their government, according to a recent Harvard Kennedy School report. In a world turned upside down by the pandemic with Great Power rivalries, the 14th Five-Year Plan is a bold blueprint of how China is getting prepared to realize her long-cherished China Dream of national renaissance, against all odds. ■

