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China’s new plan follows a path set years ago

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In China’s economic planning cycle, the year 2026 is important. The new national five-year plan for 2026-2030 was approved. Provinces, cities and other government entities are releasing their own five-year plans, which are in line with the national plan. Naturally, new plans have gathered a lot of attention both in China and abroad. They are important documents guiding policymaking in coming years.

However, the five-year plans are only a step on the path laid out by previous decisions on long-term goals. The most important objectives, so-called centennial goals, are for 2049, when the People's Republic turns 100 years old. There are also intermediate goals for 2035.

The goals were set by Xi Jinping and they were published in his report at 19th China Communist Party National Congress in 2017[1]. According to the report, by 2049 "China has become a global leader in terms of composite national strength and international influence". By 2035, "China's economic and technological strength has increased significantly. China has become a global leader in innovation."

These targets are not just political slogans, but China is actively trying to fulfil them.

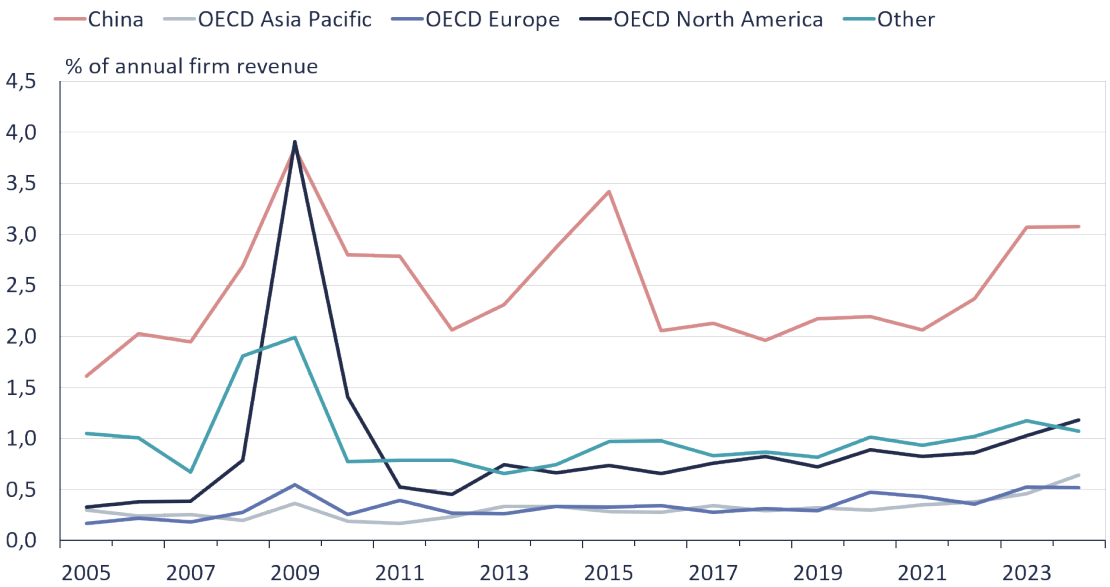
To meet the national long-term goals, China has already introduced numerous specific plans and targets. For example, industrial development programme Made in China 2025 introduced in 2015 was an important document selecting priority industries, giving a boost for example on the development and production of electric vehicles. However, it is often overlooked that the Made in China 2025 programme was supposed to be only the first phase. The second phase should cover 2026–2035 and the third phase 2036–2049. It is unknown whether the second phase of the programme is being formulated or whether it will be published.

In AI, already in 2017 China laid out a development plan where the country aims to be a leading AI nation in technology and applications, and a primary innovation center. Last year, China introduced the AI+ initiative, which seeks to increase the adoption of AI in the whole society and sets out the target that by 2035 China has "fully entered a new stage of intelligent economic and intelligent society development".

Given all the long-term goals, it is no surprise that the new five-year plan for 2026–2030 is more a continuation of the current economic path. Beijing is doubling down on a familiar formula of state-backed technological upgrading, industrial policy, and long-term economic resilience. Industrial subsidies are expected to remain large (Figure 1). While there are steps that will strengthen consumption like improvements in social safety nets, these steps do not seem to be large enough to alter the underlying structure of growth. China's economic model and policies are likely to remain heavily shaped by supply-side priorities and manufacturing strength.

Chart 1.

Chinese firms receive more industrial subsidies than firms elsewhere



Sources: OECD and BOFIT.

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As China continues strengthening industrial capabilities and if domestic demand growth remains weak, the economy will continue to be export driven. Global competition for export shares will only increase, also in areas that were once dominated by advanced Western economies.

In addition to goods exports, the new five-year plan also explicitly encourages service exports. China still has a rather small 5 % share of global services exports compared to 15 % in goods exports. Moreover, while China's goods exports are facing more and more trade barriers, services trade continues to be relatively free.

While China does not seem keen on changing its economic model, it will continue to pursue very rapid economic growth. The new plan reiterates the target to double GDP per capita from 2020 to 2035. The target, even with the declining population, requires real GDP to grow on average by 4 % annually during the next ten years. The target is overly ambitious compared to any realistic long-term forecasts of the economy. For example, the IMF forecasts GDP growth to fall well below 4 % after 2028.

In the last decade, a similar overly ambitious long-term GDP growth target contributed to rising debt, short-sighted policymaking, real estate bubble, excessive industrial capacity and inflated GDP growth figures. The new long-term growth target will likely lead to similar issues in the coming years.

For the EU, China's policy continuity means growing pressure from Chinese exports and increasing competition in strategic industries. The challenge is no longer only how to trade with China, but how to compete with it.

Notes

1. Full text of Xi Jinping's report at 19th CPC National Congress, 18.10.2017. ↑

Keywords

China, economic policy