

CHINA: 3 takeaways from the National People's Congress and 14th Five Year Plan

- China's annual parliament session sent a clear signal that GDP growth is no longer the leadership's top priority.
- The 14th Five-Year Plan (2021-25) focuses on indigenous innovation capacity and protecting China's role in global supply chains.
- The five-year plan's targets for reducing carbon emissions fall short of what advocates say is necessary to achieve President Xi Jinping's ambitious goal of net zero emissions by 2060.

China's annual parliament session convened on 5 March with the publication of the annual government work report and a draft of 14th Five-Year Plan covering 2021-25. Both documents largely conformed to expectations laid out in last week's [preview note](#), but three key takeaways are worth highlighting.

1. GDP growth is no longer top priority

The work report set a conservative baseline of "above 6%" for GDP growth in 2021, striking a middle ground between the ambitious growth targets of years past and [last year's omission](#) of any target, which some government advisors hoped would become the new norm. Growth this year will easily exceed 6%, so the target will exert little influence on monetary and fiscal policy, but the persistence of a target signals that growth remains an important priority.

Similarly, the five-year plan declined to set a target for average GDP growth for the period, while specifying that the government would continue to set annual growth targets on year-by-year basis based on prevailing circumstances. A deputy director of the state planning agency, the National Development and Reform Commission, said the lack of a longer-term GDP target will increase "policy flexibility," enabling policymakers to respond to uncertainties.

In another sign that economic growth is no longer top priority, all the plan's economic targets – on household income growth, urbanization, and labor productivity – are "indicative" rather than "binding" targets.

2. Technology is top priority

In line with previous policy pronouncements about ["dual circulation"](#), both the work report and the five-year plan place unprecedented emphasis on technological development. The work report contains 23 references to "technology" compared to only nine in 2020. The five-year plan calls for increasing total research and development spending by 7% annually and raising the share of basic research within total R&D spending total to 8%. By comparison, the US devotes around 17% of total R&D spending to basic research, but 8% would mark an increase for China, where R&D spending has traditionally focused on applied science. The increased focus on basic science reflects the leadership's ambitions to participate in pushing forward the frontiers of science and technology, rather than simply adapting breakthroughs developed elsewhere.

The plan identifies seven "front line" technology sectors where China should increase its indigenous innovation capabilities: artificial intelligence; quantum computing; integrated circuits; neuroscience and neuromorphic engineering; genetics and biotechnology; advanced clinical medicine; and deep sea, deep space, and polar exploration. The government will use tax

incentives, bank lending, and policy support for venture capital as specific policy tools to promote technological upgrading and indigenous innovation.

The plan also calls for implementing a "manufacturing great power strategy" and for policies to "guide key links in (manufacturing) industry chains to remain within China" – a clear reference to policies designed to resist pressure from western countries for [supply-chain decoupling](#).

The plan identifies eight specific manufacturing sectors that will receive policy support: advanced new materials; advanced equipment used for shipbuilding, aviation, machine tools, aviation, nuclear power plants, and offshore energy exploration; intelligent manufacturing and robotics; aircraft engines and gas turbines, applications of Beidou, China's indigenously developed GPS navigation system; new energy cars and smart cars; and high-end medical equipment and pharmaceuticals.

3. Climate pledges are not aggressive

Following Xi's [aggressive pledge](#) in September that China will achieve net zero emissions by 2060, followed by [new 2030 targets](#) announced in December, climate advocates were hoping for aggressive 2025 targets that would put China on pace to achieve the 2060 goal. In this respect, the five-year plan was a disappointment. The plan sets three binding targets and one indicative target:

- Carbon intensity of GDP – the amount of carbon emissions per unit of GDP – should fall 18% from 2020 by 2025 (binding);
- energy consumption per unit of GDP should fall 13.5% from 2020 to 2025 (binding);
- forest coverage should increase to 24.1% by 2024 from 23.2% in 2019 (binding);
- the non-fossil fuel share of total energy use should rise to 20% by 2025, from 15.9% in 2020 (indicative).

These targets are mostly intermediate steps towards the 2030 targets announced in December, rather than a commitment to accelerated progress. Given expectations of 5-6% GDP growth from 2021 to 2025, China's total annual carbon emissions will continue to rise, albeit at a slower pace than in recent years, even if the carbon intensity of GDP falls.

The most surprising element of the plan's energy and climate section is a pledge to sharply increase nuclear power capacity to 70 gigawatts (GW) by 2025, up from 52 GW in 2020. Given the small pipeline of new projects, this target implies a rapid ramp-up in new project approvals.

The dominant role of coal in China's power generation system remains the biggest hurdle to reducing carbon emissions, and climate advocates were disappointed by the lack of targets to cut existing coal power capacity or even to reduce the flow of new coal projects. On the contrary, the plan calls for "promoting the clean use of coal," which advocates view as unrealistic. The nod to clean coal reflects the persistent influence of China's coal mining and power sectors, which, as [previously discussed](#), is the biggest obstacle to China's pursuit of its 2060 net zero target.

But there is still a possibility that more ambitious targets on coal, conservation, and renewable energy will emerge over the next year or so. Once the parliament approves the draft five-year plan outline, individual ministries and local governments will produce more detailed versions covering specific sectors and regions over the following 12-18 months.

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