

# China's 2021 Government Work Report and 14th Five-Year Plan

26<sup>th</sup> March, 2021





# 2021 Government Work Report focused on stable & sustainable growth

## 2021 Economic Targets

|  | 2021 target                     | 2020 target                       | 2020 actual   |
|--|---------------------------------|-----------------------------------|---------------|
| <b>Real GDP</b>                            | 6.0%                            | -                                 | 2.3%          |
| <b>CPI</b>                                 | 3.0%                            | 3.5%                              | 2.5%          |
| <b>M2</b>                                  | In line with nominal GDP growth | Notably higher than previous year | 10.1%         |
| <b>Total credit outstanding</b>            | In line with nominal GDP growth | Notably higher than last year     | 13.3%         |
| <b>New urban jobs</b>                      | 11 million                      | 9 million                         | 11.86 million |
| <b>Surveyed urban unemployment rate</b>    | Around 5.5%                     | Around 6.0%                       | 5.6%          |
| <b>Personal income</b>                     | Steady growth                   | In line with economic growth      | 4.7%          |
| <b>Fiscal deficit as % of GDP</b>          | 3.2%                            | 3.6%                              | 3.7%          |
| <b>Local government special bonds, CNY</b> | 3.65 trillion                   | 3.75 trillion                     | 4.14 trillion |

Sources: Government Work Report 2020 and 2021; National Bureau of Statistics; The People's Bank of China; Ministry of Finance, data as of 24/3/2021

## Highlights of the Report

### Economic growth target: 6%

- Market consensus forecast of 8%+ growth
- Modest target signals focus on deleveraging and normalisation of fiscal and monetary policies
- Reduced reliance on export growth

### Support for small & medium-sized enterprises

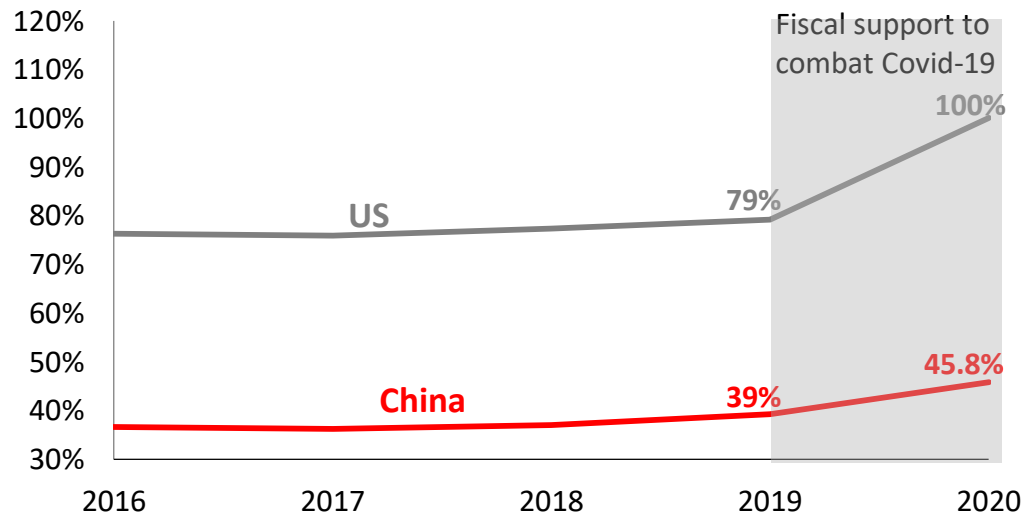
- CNY2.8 trillion of funds to be directly transferred to prefecture and county-level governments
- Provisional preferential tax policies for small and medium-sized enterprises (SMEs)
- Larger banks required to increase their inclusive lending to small and medium-sized firms by 30% this year



# 2021: Modest de-leveraging with focus on stabilising the property market

## Modest de-leveraging in 2021 plan

Government debt to GDP ratio

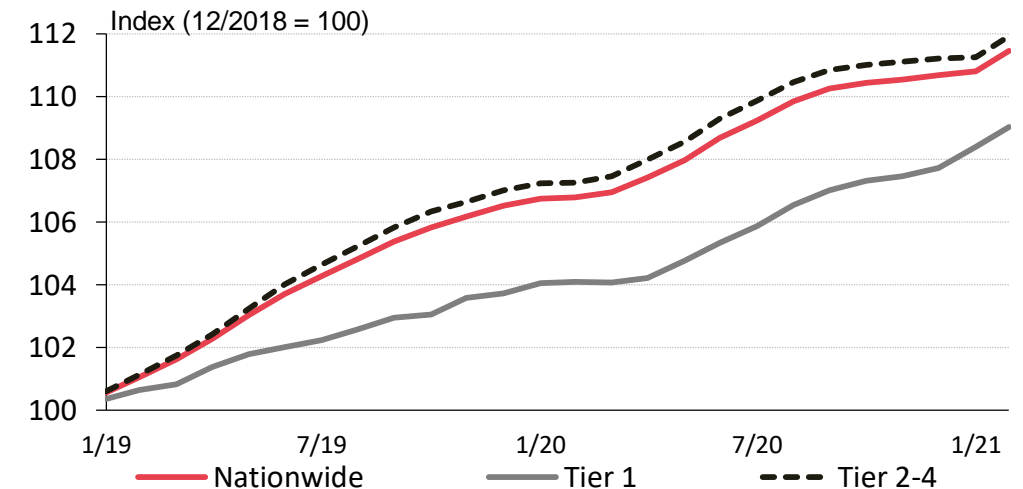


Sources: Bloomberg; PRC National Bureau of Statistics, US Congress Budget Office, data as of 24/3/2021

- Government debt increase more moderate than that of the US
- Local government debt deleveraging will be modest (2021 target amount of local government special-purpose bonds to be issued is CNY3.65 trn, up from CNY2.15 trn in 2019)

## Stated intent to stabilise the property market

New commercial home prices index by tiers



Sources: National Bureau of Statistics of China, BEA Economic Research Department, data as of 15/3/2021

- Property prices continued to soar despite Covid-19 crisis (home prices rose 0.7% ytd in Feb, after rising 3.9% in 2020)
- Target: Stabilise land prices, home prices, and market expectations
- According to Centaline Property, at least 97 rounds of restrictions rolled out nationwide between 1<sup>st</sup> Jan and 3<sup>rd</sup> March, 2021



# 14th Five-Year Plan (FYP) – Key indicators

|                        |   | 13th FYP<br>(until 2020) | 14th FYP<br>(until 2025)                      |
|------------------------|---|--------------------------|---|
| Economic development   | GDP growth  | >6.5% p.a.               | Reasonable target, dependant on circumstances |
|                        | Overall labour productivity growth                                  | >6.6% p.a.               | > GDP growth                                  |
| Innovation             | Urban permanent residents as percentage of population               | 60%                      | 65%   |
|                        | Growth of nationwide R&D expenditure                                | 2.5%                     | <b>&gt;7% p.a.</b>                            |
|                        | No. of high-value invention patents per 10,000 people               | 12                       | 12  |
| Well-being             | Growth in per capita disposable income                              | >6.5%                    | = GDP growth                                  |
|                        | Surveyed urban unemployment rate                                    | N/A                      | <5.5%   |
|                        | Average years of education of working-age population (years)        | 10.8                     | 11.3  |
| Environment            | Reduction in energy consumption per unit of GDP                     | -15%                     | -13.5%  |
|                        | Reduction of CO2 emissions per unit of GDP                          | -18%                     | -18%  |
|                        | Proportion of days with good air quality in prefecture-level cities | >80%                     | 87.5%   |
| Food & energy security | Food production capacity (tonnes)                                   | N/A                      | >650 mil/year                                 |
|                        | Energy production capacity (tonnes of standard coal equivalent)     | N/A                      | >4.6 bil/year                                 |

Sources: 13<sup>th</sup> and 14<sup>th</sup> Five-Year Plan, data as of 24/3/2021

- **No fixed GDP target**
- **Most targets are modest:** Air quality: **+0.5%** over the next 5 years (vs **+10%** improvement since 2015)
- **Main theme: self-sufficiency amid external uncertainty**



# Top agenda is to become a high-tech and innovation superpower

## Self-reliance and security goals in strategic industries

| Self-sufficiency by 2025        | Global lead by 2035                          |
|---------------------------------|--|
| 1. Material science             | 1. Artificial intelligence                   |
| 2. Manufacturing robotics       | 2. Quantum information                       |
| 3. Aircraft engines             | 3. Integrated circuits                       |
| 4. Electric vehicles            | 4. Neuroscience & neural networks            |
| 5. Medical equipment            | 5. Genomics & biotechnology                  |
| 6. Agricultural machinery       | 6. Clinical medicine & health                |
| 7. Shipbuilding/high-speed rail | 7. Deep space, deep sea, & polar exploration |
| 8. Satellite systems            |  |

Sources: 14<sup>th</sup> Five-Year Plan, data as of 24/3/2021

## Innovation Goals by 2025

- **>17%** of GDP value-added by strategic industries
- **8%** of total R&D funding for basic research
- **Beijing, Shanghai, the Greater Bay Area, & Hefei** (quantum physics research centre) to become international science and technology centres
- **56%** 5G user penetration rate
- **Introduce new funding channels** for intellectual property-based products; lending & insurance products tailored for tech companies; securitisation & other structured finance
- **Promote angel and venture** capital investments
- Attract **foreign professionals** through immigration policy, welfare system, children's education, social security, taxes, etc.
- **Push digital RMB**



# Top agenda is to become a high-tech and innovation superpower

## Brief comments

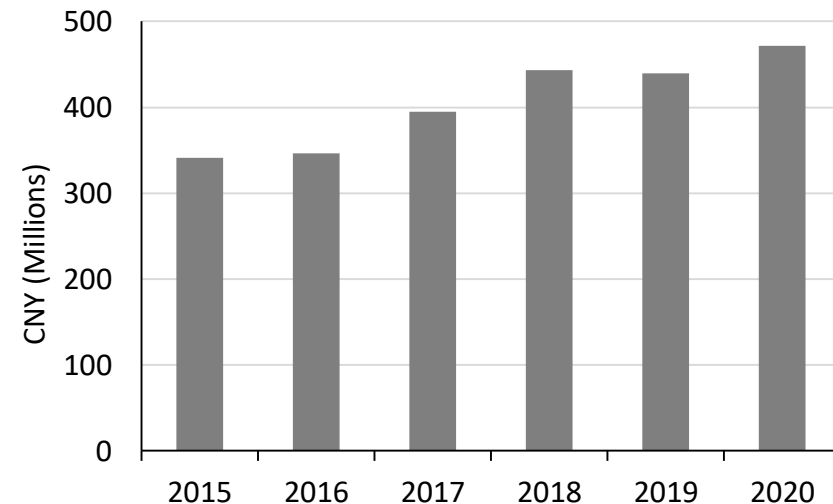


- US sanctions on Chinese tech firms and increasing hostility in the West are a threat which could bar China from obtaining advanced Western tech and expertise.
- China intends to build self sufficiency in critical technologies by boosting R&D, especially in basic research, which is now targeted for the first time in a 5-yr plan.
- In the meantime, China is actively participating in setting standards and establishing regulations for advanced tech.

## China is still reliant on high-tech product imports

- China is still reliant on importing high-tech products (e.g. net importer of US\$350 bil worth of chips in 2020, a 14.6% increase from 2019).

China's imports of high-tech products



Source: Bloomberg, data as at 25/3/2021



# Internal circulation to boost domestic consumption

## Increased social welfare coverage

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### 3 key initiatives to expand the social safety net:

- Urbanisation: Grow proportion of urban permanent residents to 65% of total population by 2025 (up from 60.5% in 2020), ensuring ease of access to public services
- Improve basic pension coverage to 95% by 2025 (up from 90% in 2020)
- Significantly reduce restrictions for migrant workers to obtain *hukou* (residency) in cities with >5 million people, enabling access to social welfare

**Social welfare coverage is being expanded to drive consumer confidence, lower the savings rate, and boost domestic consumption.**

## Actions to boost consumption

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- Encourage spending on e-commerce, electric vehicles, home appliances, etc.
- Upgrade Chinese brands, particularly in cosmetics, clothing, textiles, & electronic products
- Adjust consumption tax rate and coverage
- Fully implement paid annual leave system

## Brief comments

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- Given volatile external environment, exports can no longer be the key growth driver.
- However, private consumption's contribution to GDP was only 38.8% of GDP in 2019 (vs ~70% in the US).
- More bold, new initiatives will be needed.



# External circulation: Foreign trade and Belt and Road Initiative (BRI)

## Planned policy initiatives in foreign trade and investment

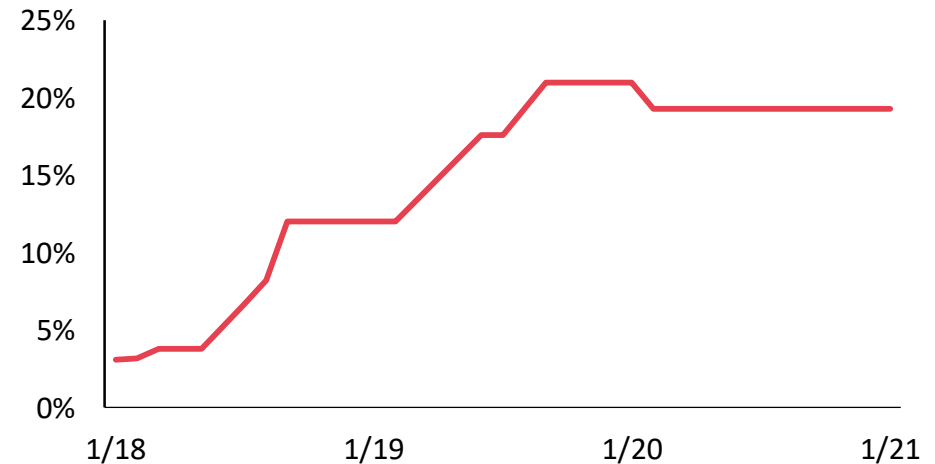


- Open services sector to foreign investment
- Join **CPTPP**, reach a **China-Japan-South Korea Free Trade Agreement**, & sign **EU-China Comprehensive Agreement on Investment**
- **Play an active role in WTO reform** to protect the rights of developing countries
- **BRI: Healthcare cooperation, “e-commerce Silk Road”**, financially sustainable investment in other countries

## Brief comments

- China is still reliant on the US to buy its exports. The US is the largest single export destination (buying around **17.4%** of China's total exports in 2020).
- US-China trade relations remain tense and high tariffs are still in place, forcing China to diversify its export markets.

US tariffs on Chinese exports



Source: Bloomberg, as of 31/2/2021



# Green & sustainable development: targets & challenges

## Environmental goals

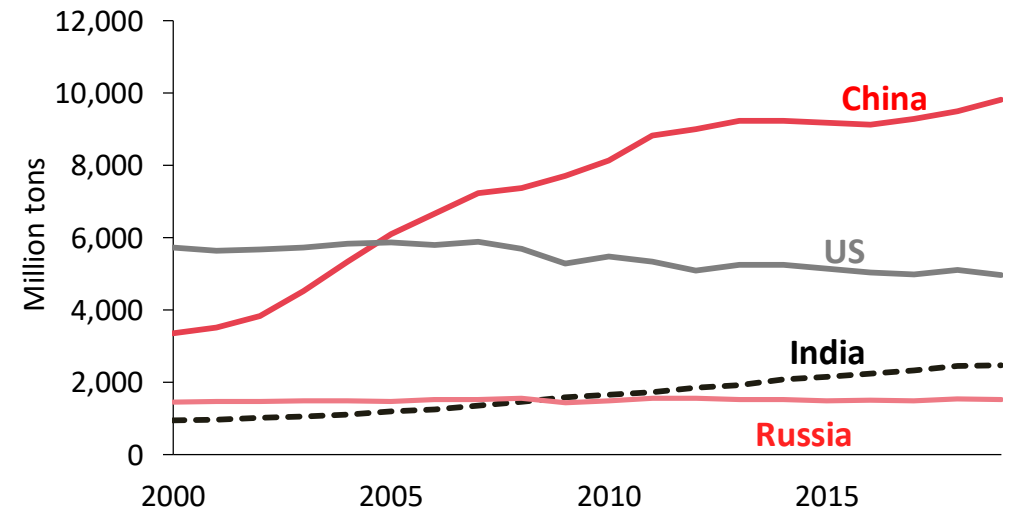


- Peak carbon emissions by **2030**
- Carbon neutrality by **2060**
- **13.5% reduction** in energy consumption and **18% reduction** in CO2 emissions (per unit of GDP) by 2025
- **20%** of energy mix from renewable energy sources – wind, solar, water, & nuclear energy (vs 16% in 2019)
- **24.1%** of total land area with forest coverage
- **Yangtze-River Delta** – set up as green development model zone, with construction of a green industrial system

## Brief comments

- China is still very coal-oriented (62% of total energy supply).
- Carbon emissions can still rise by 1.1% each year if GDP grows at 5.5% year-on-year in 2021-25.

Carbon dioxide emissions from top emitting countries



Source: Bloomberg, data as of 25/3/2021



# Regional clusters promoted to drive further economic growth

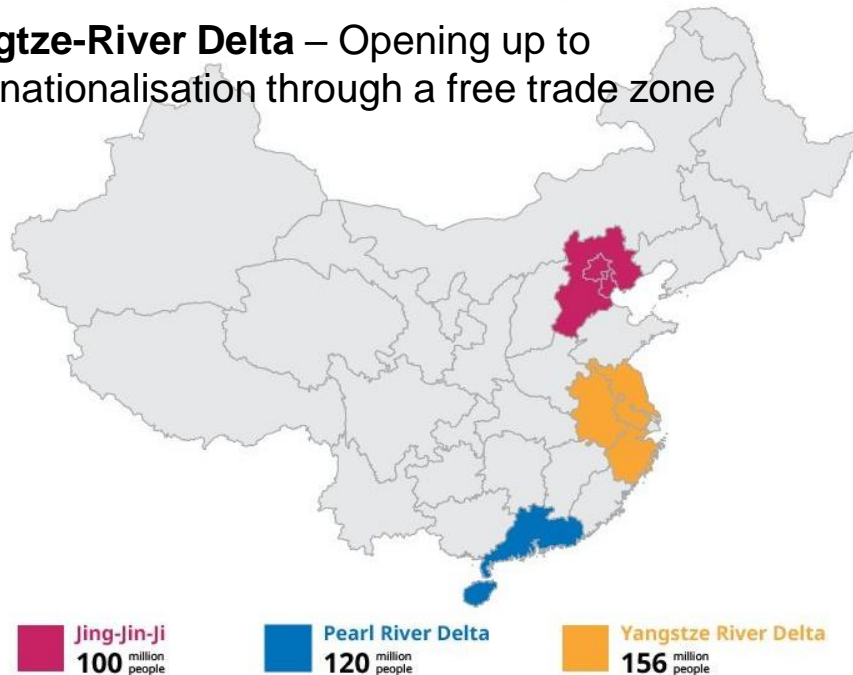
## Development of city clusters and one-hour commuting circles encouraged

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### 1 Beijing-Tianjin-Hebei region – Administrative decentralisation

- Continued relocation of non-capital functions to neighbouring areas, such as the Xiong'An New District;

### 2 Yangtze-River Delta – Opening up to internationalisation through a free trade zone



### 3 Greater Bay Area – Research and Innovation

- Strengthened coordination between industry, universities, and research institutes
- Cross-border flows of students, professionals, services, and investment to be facilitated, and youth exchange within the area promoted
- Intercity railway system to be established and new shipping and air transport capacities added
- Integration of regulations and qualifications between the mainland and Hong Kong and Macau

## Brief comments

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- Regional clusters will allow for coordinated development, reduced competition for resources, and less overlap in industrial development.



# Other initiatives

## Food & financial security

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### Food security

- Aim to achieve basic **self-sufficiency** in grain products by adopting technology.
- **Red lines set for arable land** and permanently protected farmland.



## Brief comments

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- Natural disasters and geopolitical uncertainties threaten China's food supply.
- Rapid urbanisation is eating into available farm land.



### Financial security

- **Illegal financial activities will be combatted** and high-risk financial institutions cleaned up.
- **Implicit debts** of local governments to be dealt with.
- **Healthy growth in internet finance** fostered.
- **Standardised registration system** to be introduced for IPOs.



- Issue of high leverage and rapid development of internet finance are downside risks.
- Aim is to stabilise and, if possible, lower the leverage ratio.
- The government is beginning to act on monopolies and market collusion in order create an even playing field for smaller startups (e.g. recent clamp-down on internet finance).



## **Key theme of the 14th 5-year plan – Promoting self sufficient growth during a period of external volatility**

- The de-leveraging process amid a challenging external environment will slow growth to the 5-6% range over the next few years, down from a projected growth rate of 8.6% for 2021.
- To achieve sustainable economic growth over the next 5 years, the Chinese government will actively promote innovation in selected high tech industries, dual circulation (with a particular focus on domestic consumption), and green development.
- It will however, moderately tighten credit to local governments and the housing market in order to deleverage and stabilise housing prices.



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