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The Chinese 14th Five Year-Plan: toward 2025 and beyond

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Focus 2021-2

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Introduction

by Stefano Sartorio

The 13th National People Congress approved on 11th March 2021 the 14th Five Year Plan of the Communist Party of China for the "national economic and social development of the People's Republic of China".

Coming from the most challenging year of the last decade, the Chinese plan for the next five years and more assumes even a greater importance. Publicly defining basic guidelines and objectives of China's development, observers are also assisting to what will be the major developments in the global world. The importance of this interesting and complex actor in global dynamics is unquestioned and will heavily contribute to our vision and experience of the future.

Being able to understand the main patterns in China's economy, foreign policy, society, military and innovation as outlined during the NPC discussion and in side-event press conferences becomes incredibly important.

"The increasing world instability has brought Chinese policymakers to evaluate different strategies"

The increasing world instability has brought Chinese policymakers to evaluate different strategies to cope with the times ahead. The protection of core interests determines the policies outlined during the Two Sessions. In sum, a global rebalancing of power is well underway, while we still do not fully grasp how it will settle in the next future. The nature of power is cryptic, being hard to define how a country can become a major power vis a vis another Great Power. Moreover, the role that the country aims to cover in the next decade in the international system is still to be determined through careful observation to not fall prey of easy or predictable evaluations.

China is developing at a fast pace, being now able to guarantee to a certain extent the projection of its interests. Searching for a greater quality in its output and a higher position in the value chain, the country is again changing the global perception of itself. From the manufacture of the world to a high-tech power in the future. But how does China outline such goals?

From an economic and society point of view, the key word is "quality". Global downturns due to the past US administration posture and to the Covid-19 pandemic made the Chinese Communist Party to deliver new discourse on the Dual Circulation last year and during the NPC meetings of the last weeks. In relation to Beijing's external circulation, namely the foreign economic policy, the Party plans to improve high-quality cooperation within the framework of the Belt and Road Initiative and encourage global trade. In terms of Internal Circulation, "expanding domestic demands" becomes a prioritized goal for the Party. Premier Li Keqiang set a forecast of 6% GDP growth for this year, marking the first time for the country to not release long term goals of growth, as expected by the rumors during the 5th Plenum. Fiscal incentives to internal development are outlined in the provisional measures, assessing VAT measures and financial stimulus through banks loans. On foreign investors Premier Li Keqiang guaranteed fairness and equality.

From an innovation and technological point of view, the key word is "self-sufficiency". Material science, manufacturing robotics, aircraft engines, electric vehicles, medical equipment, agricultural machinery, shipbuilding/high-speed rail, and satellite system were discussed as the eight-core industries that will become self-sufficing by 2025. But if China aims at "doing it itself" it must recognize the main challenges of this approach. Due to the reshaping of the global power structure, great powers are focusing on upgrading their entire technological and digital equipment. This acceleration of digital transformation, also known as the Super Cycle, is draining the stocks of all microchips. The reality of the tech supply chain is against self-sufficiency. High-tech products require specific parts and materials that are most-likely not inter-compatible. In market realities where the supplier and the buyer are limited on both ends, pursuing self-sufficiency greatly hinders a firm's price competitiveness. The alternative solution for China to its "Red Supply Chain" would be to gather the Belt and Road nations to cooperate with China's domestic supply chain.

From an environment and sustainability point of view, the key words are "green development". The CCCPC proposed four main goals for the 14th Five Year Plan: (1) the acceleration of "the promotion of green and low-carbon development", (2) the focus on "environmental quality", (3) the improvement of "quality and stability of the ecosystem", and (4) decisive steps toward an improved "efficiency of resource utilization". The reaction to the Two Sessions discussion is divided: on the one hand, critiques highlight that, in order for China to reach the goal of becoming a "manufacturing superpower" and to lead in the technology field, coal and fossil fuels will still be favored in its energy mix, and China's demand for petrochemicals and polymers (of which the P.R.C. has been the biggest global consumer since 2008) is not likely to decrease. On the other hand, Chinese officials keep reaffirming that the Carbon emissions peak will be reached by 2030 and external observes remark that "[peaking in] 2025 seems possible, all the modelling by Chinese teams points to that, and it's not too late."

From a military point of view, the key words are “military-civil fusion”. The CCP is pursuing the realization of an integrated national system. Its goal is to enable the PRC to develop the most technologically advanced military in the world. As the name suggests, a key part of MCF is the elimination of barriers between China's civilian research and commercial sectors, and its military and defense industrial sectors. As reiterated in the plan, an essential role in the path to military modernization would be constituted by the recent development of advanced, smart technologies, such as AI, cyberspace, hypersonic weapons and detection systems, semiconductors and quantum information. The period covered by the plan will be crucial for China to meet its ambitious targets of upgrading and reforming the People’s Liberation Army (PLA) by its centenary in 2027, of performing a complete modernization by 2035, and of achieving the status of world-class military by the mid-century.

From a foreign policy point of view, the key word is “multilateralism”. Wang Yi commented that 2021 will be a year of “epoch-making significance”. From a broader point of view, the plan does outline some of the guidelines that Chinese foreign policy says being fundamental: 1) Promoting international cooperation (i.e. policy coordination), 2) achieving mutual benefit and win-win results, 3) promoting the joint construction of the "Belt and Road" to achieve stability and long-term development, and 4) promoting the construction of a community with a shared future for mankind. These goals can be translated through 1) cooperation through foreign aid or loans, in exchange of political support, 2) preserving the legitimacy of the Party’s rule on the country through the management of stability at home and abroad, 3) respecting reciprocal sovereignty and different political systems. As widely known, challenges to core interests are at stake, pointing also to the various skirmishes with the US at first. Relations between the two countries will see areas of cooperation (Covid-19, climate change), competition (technological and trade) and confrontation (Taiwan, Hong Kong and human rights). With regard to the EU, as Wang Yi said on a conversation with Josef Borrell, “China welcomes an EU that enjoys strengthened strategic autonomy”.

Economy and Society

by Shalva Chikhladze

Two detrimental events posed risks to China's political economy. The first catastrophe was the Great Lock-down sparked by the COVID-19 Pandemic, which posed as a serious threat to the sustainable development of China as well as the world economy. Even though China was the first to get back on its rails by showing an expected growth rate of 7% this year (according to the data of International Monetary Fund), it is still affected by the decrease in global consumption. The second catastrophe would be the rise of protectionism despite the interdependence of the global supply chain. State-actors began to act upon the principle of self-help, the most prominent being the Trump Administration's "Trade War". U.S. decision to impose sanctions on Huawei 5G equipment, followed by re-shoring policies of American businesses, exposed China's vulnerability to the International Circulation. For the first time in the last four decades since the Economic Reforms of the 1970s, China was subject to severe political-economic challenges. Up-until this day, the newly elected Biden Administration has not proposed any new plans to deescalate the tensions between Beijing.

"For the first time in the last four decades since the Economic Reforms of the 1970s, China was subject to severe political-economic challenges"

Due to the above-mentioned events that delayed the speed of globalization, Beijing's trust outside its borders plummeted, demanding discourse on how to secure China's economy from external impacts. The Chinese Communist Party's answer was Dual Circulation, which is a plan that cements its strength inside (Internal Circulation) while keeping its image as a supporter of globalization outside (External Circulation). The details of this development model were presented in this year's Two sessions, which coincide with the releasing of the 14th five-year plan (2021~2025).

In relation to Beijing's external circulation, namely the foreign economic policy, the Party plans to improve high-quality cooperation within the framework of the Belt and Road Initiative and encourage global trade. Accordingly, the 14th five year plan seeks to promote the China-EU comprehensive agreement on investment (CAI) and boost multilateral cooperation in correlation to the Regional Comprehensive Economic Partnership (RCEP). Despite the hostile relationship due to geopolitical concerns, the Party plans to facilitate China-South Korea-Japan free trade talks.

In terms of Internal Circulation, "expanding domestic demands" became a prioritized goal for the Party. China is the biggest purchasing power of the world with 1,4 billion people with rapidly growing middle-class. Consequently, increasing domestic demands translates to increase in supply and services of related industries. A clear example of the benefits of increased inner demand would be the role in consumption of domestic tourists. Amid the COVID-19 crisis, while the borders were closed and the world economy was ravaged by the Great Lockdown, China's tourism sector was supported by its own people due to the increased consumption during the Chinese New Year.

However, there were some important details that hints Beijing's change in its stance towards economic development. Unlike how the Chinese Communist Party (CCP) always shared their GDP growth plans during the National Party Congress and Chinese People's Political Consultative Conference, for the first time, Premier Li Keqiang refused to set a concrete goal. Premier Li only disclosed a forecast of 6% GDP growth, which is a conservative number in comparison to predictions of the International Monetary Fund which is expecting a growth rate of 8.1%.

At a local level, the 14th five-year plan will extend the provisional preferential tax policies for small and medium size enterprises (SME), specifically on value-added tax (VAT). This is because, like all SME around the world, Chinese small businesses were the major victims of the overall decrease in consumption occurred by the strict disinfection policies like lockdowns and travel restrictions. To go into details, individual taxpayers who are not registered as general VAT taxpayers will be treated as SME. First, the plan will extend the period of 75% additional pre-tax deduction of Research and Development expenses. Second, the plan will increase the additional pre-tax deduction rate of manufacturing enterprises up to 100%. Third, it will offer a full refund of incremental VAT credits to manufacturing enterprises. Last, the plan will increase the VAT threshold from 100 thousand Yuan to 150 thousand Yuan to allocate additional resources for SME.

Furthermore, Li announced that big banks will increase "inclusive" loans by 30% to SME. In the following years, to enhance sustainability, the Party plans to combine quantitative growth and qualitative improvement which will expand the size of the middle-class. Moreover, policy designers arrange to increase the General Price Index by 3%.

At a State level, Premier Li Keqiang presented the plans for continuation and completion of past infrastructure projects, such as constructing highways and high-speed rails that enhance the inner supply chain of China. The central government will issue over 3 trillion yuan for the local governments to finish or continue the infrastructure projects that dates back to the Chinese economic reform of the 1978. One key difference is that, in relation to the withdrawing of grants for port development, the 14th five-year plan shows some hints of promoting self-sufficiency.

The 14th five-year plan shows visions for the rural and urban sectors. Looking at this year 100th anniversary of the CCP in July, President Xi Jinping boasted the Party's achievements by mentioning that approximately 98 million people of rural areas were lifted from extreme poverty. This is highly relevant to the Party's ambition to double China's GDP per Capita by 2035, a plan that requires a steady sustainable growth on both micro and macroeconomic level.

Simultaneously, the border clashes with India geared the central government to promote rural revitalization strategy across the border. China aims to artificially increase population in border regions and utilize the manpower to become the natural border guards for the state.

For urban development, Chinese state-affiliated media "Global Times" reports that the Party aims to keep the unemployment rate under 5,5%. According to the document, the Party aims to create 11 million new jobs for the urban areas. Moreover, to qualify as an advanced economy like the United States and Western Europe, the Party seeks to reach an urbanization level of 65% in the next five years. For these reasons, Beijing tries to keep a free trade flagman role, trying to enlarge trade interaction with other international actors.

Li's working report highlights the significance of foreign investments and their development in China. In response Premier Li Keqiang guaranteed fairness and equality to all foreign investors. The recent adoption of the Foreign Investment Law (2019) and last year Chinese Supreme People's Court promulgation of the "Interpretation on Several Issues Concerning the Application of the Foreign Investment Law of the People's Republic of China" (entailing the new judicial interpretation of Chinese courts on the review of foreign investment contracts) all point to a gradual but steady opening of the country's economy to foreign investments.

The 14th five-year plan is more cautious than previous ones and this is quite logical. In the post-pandemic world, nation-states need to work on the domestic and international level to ensure sustainable and quick recovery of their damages.
In the upcoming years, the international system will witness a gradual and radical reform of China's domestic development.

Technology and Innovation

by Han Seohyun

Technology is one of the most decisive factors that define which state qualifies as a Great Power in the Realist lens of International Relations. Accordingly, as a great power, China has been developing and applying its technology at impressive speeds in all sectors of the economy. According to the World Intellectual Property Organization (WIPO), "China was the biggest source of applications for international patents in the world in 2020 for the second consecutive year". Its applicants submitted 68,720 patent requests, which was a 16% increase in patent filing despite the Great Lock-down sparked by the coronavirus pandemic. This year's annual sessions were focused on giving recognition to these achievements while simultaneously presenting road maps to the future of China's development.

At its core, however, when considering the announcement of deciding not to disclose China's growth rate for the next five years, the Party is foretelling a radical reform to its fundamentals: from quantitative growth to qualitative improvement. Material science, manufacturing robotics, aircraft engines, electric vehicles, medical equipment, agricultural machinery, shipbuilding/high-speed rail, and satellite system were discussed as the eight-core industries that will become self-sufficing by the year 2025.

"China was the biggest source of applications for international patents in the world in 2020 for the second consecutive year"

On the other hand, Artificial Intelligence, Quantum Information, Integrated Circuit, Brain Science, Biotechnology, Pharmaceutical Technique, Aerospace/Bathyscaph Manufacturing were emphasized as the seven technologies that China will take the global lead in by the year 2035. One coherent element on both short and long-term plans is that they focus on securing source technologies that affect China's political-economic security.

This is because, as foretold of the last year's 5th plenum, this year's Two Sessions were focused on self-sufficiency. Recent policies that were rolled out were focused on driving China's technological development towards the inner supply chain, which is coined as the Dual Circulation model. Although this is propagandized as an extension to Deng Xiaoping's Great International Circulation that globalizes China's economy, the Dual Circulation strategy is intrinsically different in that it shows potential to shift China's development path from globalization to isolation. Although this raise concerns on how it will align with the Belt and Road Initiative, this was expected by the characteristics of China's recent tech-policies, which were reactions to Washington's export control.

While there has been a loud call for self-examinations of America's 'shift from globalization to geopolitics pursued by the Trump Administration', the newly elected Biden Administration is reluctant in showing any efforts to de-escalate the tensions of the New Cold War. This, of course, is an inevitable choice when considering the upcoming advent of the 5G infrastructure that is set to redefine the major players of the international system.

Telecommunication-based innovations will include the virtual realm (A realm created by digital interaction among users of Extended Reality hardware and software) as a crucial element to geopolitics. From the moment an Extended Reality platform becomes dominant, those who gain market share will survive while those who fail to ensure their pie will fall behind. Due to this reshaping of the global power structure, great powers are focusing on enhancing their high-tech equipment of all relevant industries. One great example would be the automobile industries that are planning to add autonomous navigation features as an industry standard. This acceleration of digital transformation, also known as the Super Cycle, is draining the stocks of all microchips produced by major foundries. The proof of this global semiconductor shortage can be observed in Washington's backing of its trade sanctions against Semiconductor Manufacturing International Corporation (SMIC).

This global shortage of semiconductors, as much as it is a challenge for foreign Tech giants, is subjecting Chinese companies to engage in a heated competition to procure as many precision-engineered parts as possible. In correlation with the recent rise of China's domestic market as the second-largest economic transactions platform, Beijing seems to have come down to the conclusion that it could be seen as an opportunity to construct an internal cycle of the high-tech supply chain.

Under the scenario that Beijing aims to complete this so-called "Red Supply Chain" that strictly circulates within China's borders, its domestic portfolio seems fair enough when considering the lineup of big tech companies such as Huawei and Beijing Oriental Electronics (BOE). Also, its semiconductor industry is diverse in that it has both FabLess (designing and selling hardware devices and semiconductor chips while outsourcing their fabrication (or fab) to a specialized manufacturer, the "foundry") and Foundries. Moreover, power companies like Ganfeng Lithium are well-known for being the major supplier of Lithium batteries to world-leading electric vehicle companies like Tesla.

Aside from the benefits of the internal cycle such as efficiency in logistics and communication, the motives are more or less political than economic. Beijing intends to build a formidable barrier against Washington's export control in the short term while challenging the liberal world order that solidifies America's Unipolarity.

High-speed rail in the future will show possibilities to transfer distribution power from the sea to land. Renewable energy is set to make oil industries obsolete. Subversive weapons could then nullify the U.S. Navy projection, invalidating Washington's strategies to keep the war outside its borders. Most importantly, the advent of Extended Reality will completely change the dynamics of the modern economy, displaying the potentials to promote China's status as the leader of the digital realm. This is a reasonable concern for the Washington elites when because China has the fastest growing market and industry in virtual reality.

However, although China's shift from the global supply chain to the domestic economy seems plausible on the surface, the core of its mechanics is destined to meet challenges. This is because the realities of the high-tech supply chain are against self-sufficiency. China is the biggest purchasing power in the world, but it is also the most populated. For China to realize its power generated by virtual territory, it requires equipment that is accessible to the public in both quantity and quality.

The problem will extend to corporate sectors when considering the reality of the sophisticated supply chain. Unfortunately, unlike goods that do not need high levels of expertise in material science and precision engineering, high-tech products require specific parts and materials that are most-likely not inter-compatible. In market realities where the supplier and the buyer are limited on both ends, pursuing self-sufficiency greatly hinders a firm's price competitiveness. In a worst-case scenario, it could even limit a manufacturer's product planning.

This problem will naturally extend to China's plans for 2035 as well. Most of China's focus on future industries shows Beijing's concerns about the upcoming inclusion of the deep sea and space as the new dimensions of geopolitics. However, in the future competition of exploration, the computing power of the high-tech system is crucial. While China's competitors, mainly the U.S. and Japan, will interact with each other through reciprocally providing parts and materials that increase price-performance, Chinese firms would have to be bothered with concerns on how to align corporate interests with authorities' guidelines.

This is especially true when because most of the management sectors of Chinese tech companies have close ties to the Chinese Communist Party. In the era where the singularity is approaching, the technological disparity caused by the Dual Circulation policy will bring obstacles to China's rise as America's rival.

The alternative solution for China would be to gather the Belt and Road nations to cooperate with China's supply chain. Traditional powers such as West European countries and Russia could support China's material industries if China were to reinforce the existing cooperation structure. Rising powers such as Singapore and South Korea could supply China's manufacturing with precision-engineered parts. Central Asia and Africa will solve China's geopolitical concerns on distribution routes and resources. This Afro-Eurasian Supply Chain, aside from the benefit of economic integration, could bring intensive stability to Beijing's plans to solve Washington's export control while strengthening China's stance as the next global leader. To sum up, in regard to the upcoming cataclysm of geopolitics in the digital realm and space territory, China's theme on innovation should be choice and concentration, not self-sufficiency and isolation.

Environment and Sustainability

by Elodie Cardonnet

The attention to environment sustainability in Chinese official discourse has been rapidly growing since 2011, with a particular boost in the 13th Five Year Plan (2016-2020), which included specific targets in terms of energy consumption and Carbon Dioxide emissions reduction per unit of GDP, major pollutants emission reduction, fossil fuels energy supply relative decrease, forest coverage increase, air quality improvement through PM2.5 concentration reduction (PM stands for "particulate matter"), water usage efficiency, and water quality improvement.

Chinese officials repeatedly declared their willingness to take concrete actions against climate change and to reduce China's carbon footprint. In 2020, President Xi Jinping highlighted Chinese achievements and efforts notably on two occasions: in September, at the General Debate of the 75th session of the United Nations General Assembly and in November, at the Fifth Plenary Session of the 19th Communist Party Central Committee.

"President Xi Jinping also acknowledged that China still needs to bear heavy responsibilities and to conduct a long struggle against environmental challenges"

At the United Nations President Xi Jinping draw attention to Chinese efforts to implement "vigorous policies and measures" in order to meet its Intended Nationally Determined Contributions in greenhouse gas emissions reduction under the UNFCCC, to reach a peak of carbon emissions by 2030, and to "achieve carbon neutrality before 2060". He also emphasized Chinese involvement in international cooperation systems related to environment protection, in particular the Paris Agreement.

The Fifth Plenary Session of the 19th Communist Party Central Committee in November 2020 was an opportunity to highlight China's achievements in terms of environmental improvement and creation of a greener economy. In the last decade there have been substantial results in terms of environment protection from a legal (e.g., the revision of the Environmental Protection Law in 2014), social (e.g., the growing environmental awareness in the society), political (e.g., local plastic ban experiments), and economic perspective (e.g., in 2018 China spent $280 billion in research and development). During the Fifth Plenum President Xi Jinping also acknowledged that China still needs to bear heavy responsibilities and to conduct a long struggle against environmental challenges, indirectly suggesting the strong ties link of environmental goals with other strategic goals (e.g. self-sufficiency, innovation, new urbanization economic growth, and social development). He also mentioned future qualitative steps to push forward green development.

On October 29, 2020, the Central Committee of the Communist Party of China (CCCPC) adopted the recommendations for the 14th Five Year Plan for National Economic and Social Development and the long-term goals for 2035 (Xinhua News Agency released the official proposal on November 3, 2020), the baseline for the final 14th Five Year Plan (2021-2025) adopted by the Two Sessions in early March 2021. The plan is crucial for China to meeting the target of net-zero emissions (or Carbon neutrality) by 2060.

Looking at the recommendations for the 14th five-year plan, the CCCPC dedicates section 10 of its proposal to environment protection, with the aim to "Promote green development and promote the harmonious coexistence of man and nature" on the basis of the slogan "clear waters and green mountains", first announced in 2005 by Xi Jinping, at that time Secretary of Zhejiang provincial Party Committee, and later integrated in official discourses at several levels to highlight the importance of an harmonious relation between human and nature, between economic development and protection of the ecological environment.

The CCCPC proposed four main goals for the 14th Five Year Plan: (1) the acceleration of "the promotion of green and low-carbon development", (2) the focus on "environmental quality", (3) the improvement of "quality and stability of the ecosystem", and (4) decisive steps toward an improved "efficiency of resource utilization".

The CCCPC suggested to accelerate "the promotion of green and low-carbon development" through: (1) cautious natural space management, planning, and use control, in order to gradually reduce the portion of natural space occupied by human activities (including, among others, agriculture, livestock, and urban development); (2) reinforced legal and policy guarantees in favor of green development, including green finance, green technological innovation, clean energies, environment protection industries, and "green transformation of key industries and important fields"; (3) the promotion of "clean, low-Carbon, safe and efficient use of energy"; (4) the development of green urbanism and "green life creation activities"; and (5) the formulation of plans to reach the peak of Carbon emissions before 2030 and to reduce them afterwards.

The second goal, namely to continuously improve environment quality, means that China commits itself to work on prevention and control with both national and international efforts, in particular by: (1) raising awareness among the whole society on the importance of ecological and environmental protection, pursuing educational programs to promote means to prevent ground, land and sea pollution; (2) implementing effective and coordinated means to control PM emissions (to reduce air pollution), to improve urban sewage pipe networks (to reduce water pollution), and to limit the use of chemical fertilizers and pesticide (to reduce soil pollution); (3) improving waste treatment services, including hazardous, chemical and medical waste; (4) implementing the "pollutant discharge permit system", and promoting "the market-based trading of pollutant discharge rights", energy and water use rights, and emissions rights; (5) using binging indicators for environment protection; (6) participating and leading international cooperation on climate change.

The third goal is to "improve the quality and stability of the ecosystem" through a rigorous management of natural areas, the implementation of biodiversity conservation projects, a scrupulous control of alien species, the protection of resources through specific bans (e.g., a "ten-year ban on fishing in the Yangtze River), and the pursuit of massive forest-planting operations to limit desertification and soil erosion.

The fourth goal is to "improve the efficiency of resource utilization" through a defined property right system, specific laws and regulations, effective investigation, evaluation, monitoring, classification, registration, and price definition systems and mechanisms.

Although the official 14th Five Year Plan has not been released, therefore there is no guarantee that each and every point suggested by the CCCPC in October 2020 has been approved during the Two Sessions, however it is certain that green development has been a core discussion topic, since green commitment, clearly and unequivocally emphasized by President Xi Jinping in 2020, is inevitably linked to precise quinquennial political guidelines.

According to information on Two Sessions discussions release by local and international observers, environmental targets and energy priorities have been prominently discussed, including: (1) binding targets related to energy, environment, and agriculture (for instance, a cut of "energy consumption per unit of GD, or energy intensity by 13.5%" in the period 2020-2025, and a cut of carbon emissions per unit of GDP, or carbon intensity by 18% in the same period; (2) an "action plan for Carbon emissions to peak by 2030"; (3) the further development of nuclear power; (4) and the creation of new facilities to handle hazardous and nuclear waste.

Moreover, they reaffirmed previous policies on "corporate tax credits for environmental protection and resource conservation", on green finance and financial support for green development, and on Carbon-emission reduction instruments. Lastly, China showed its intention to strengthen environmental protection at the international level, for instance through the formulation of a law on activities and environmental protection in Antarctica in 2021.

The reaction to the Two Sessions discussions is divided: on the one hand, critiques highlight that, in order for China to reach the goal of becoming a "manufacturing superpower" and to lead in the technology field, coal and fossil fuels will still be favored in its energy mix, and China's demand for petrochemicals and polymers (of which the P.R.C. has been the biggest global consumer since 2008) is not likely to decrease. On the other hand, Chinese officials keep reaffirming that the Carbon emissions peak will be reached by 2030 and external observes remark that "[peaking in] 2025 seems possible, all the modelling by Chinese teams points to that, and it's not too late." (Laurence Tubiana, the chief executive of the European Climate Foundation). In fact, in early March concrete action has been taken in favor of financial support to green energies: for instance, in March 12, 2021, the National Development and Reform Commission, the People's Bank of China, the China Banking Regulatory Commission, and the National Energy Administration jointly issued a "Notice on Guiding to Increase Financial Support to Promote the Healthy and Orderly Development of Wind Power and Photovoltaic Power Generation Industries", a document that shows the P.R.C. strong support for green finance and investments in clean energy development, in line with the CCCPC suggestions.

In conclusion, although the targets set for the period 2021-2025 have been targeted as "modest" by some observers, nonetheless the discussions during the Two Sessions show that environment protection is a key issue in Chinese politics and it follows a constant positive trend, although always pragmatically balanced with economic and social objectives.

Military

by Domenico Repaci

Overall, the 14th five-year plan sets out no major shifts from the general narrative regarding the modernization of the army, rather it is putting a stronger accent on the acceleration of the already existing initiatives. The period covered by the plan will be crucial for China to meet its ambitious targets of upgrading and reforming the People's Liberation Army (PLA) by its centenary in 2027, performing a complete modernization by 2035, and achieving the status of a world-class military by the mid-century. As it is stated within the document, all these initiatives must be implemented following Xi Jinping's thought on strengthening the army, and under the complete prevalence of the Party over the military.

President Xi stressed again such imperatives on Tuesday, March 10, on the sidelines of the 13th National People's Congress (NPC), while attending a meeting of the PLA and PLA Air Force. The President stated that the international security environment presents a series of challenges to China, due to its growing instability and uncertainty. Therefore, the entire PLA is called to action in the areas of military build-up and preparation, to be able to respond with resolve and determination to complex situations. This policy has been directly reinforced by the second-highest leader of the Central Military Commission (CMC), Vice Chairman Xu Qiliang, at the NPC. In the words of the General of the PLA's Air Force, China must increase its military spending to face the upcoming Thucydides trap - a concept referring to the inevitable clash between rising and declining powers, and an indirect message to Washington.

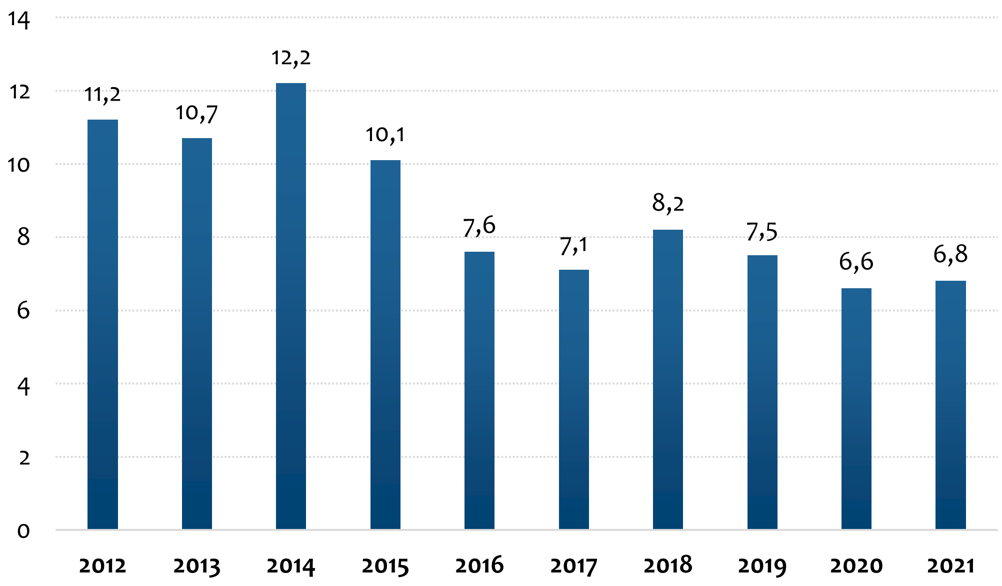
"International security environment presents a series of challenges to China, due to its growing instability and uncertainty"

Such recurring themes are in line with recent official documents, presidential speeches, and the important amendments to the National Defense Law, all of this affecting the substance and vocabulary of the five-year plan. The Law reformed the administrative structure of the military system and opened the defense industry to the private sector. The ultimate goal of this strategy is to promote further innovation in the industry by bringing in the latest innovations coming from the civil and commercial technological ecosystems.

Directly related to these policies, the 14th five-year plan is addressing another paramount initiative. The strategic interweaving between the military and the civil society, known as the military-civil fusion, is again deeply related to the general economic performance and the technological and scientific advancements of the non-military industry. However, the realization of an integrated national system has been raising several international concerns in the last years. The above-mentioned reforms are to be looked at in this sense: private investors and sub-contractors will make it more difficult for foreign entities to investigate and trace possible connections between the commercial and the military areas.

After a first look at the proposed budgetary policy for the current year, it seems that the PLA will get a moderately robust increase in funding. Military spending is set to rise by 6.8 percent in 2021, reaching a considerable cumulative amount of more than $200 billion.

China military spending - % increase over the previous year



Source: Chinese Ministry of Finance

However, as already specified in the previous issue of this report, figures on defense spending are controversial at best and disputed by many. Chinese authorities are adamant about their data, although most analysts claim much higher numbers. Generally, critics argue that official Chinese figures do not take into account all the spending related to R&D, and funds destined to the Coast Guard and the People's Armed Police - a paramilitary organization under the direct control of the PLA and the CMC.

China's defense spending will most probably continue to be focused, for a relevant part, on the build-up and improvement of the PLA Navy and the PLA Navy - Air Force (PLAN-AF). In this regard, the program for the build-up of the new type-055 destroyers is progressing steadily. Also, China's third aircraft carrier is currently being assembled at the Jiangnan shipyard and it is expected to be launched within this year.

As reiterated in the plan, an essential role in this path to modernization would be constituted by the recent development of advanced, smart technologies, such as AI, cyberspace, hypersonic weapons and detection systems, semiconductors, and quantum information. This, to be complemented by the introduction of modern military theories, management and training methodologies. Insight of the coming 2027, 2035, and 2050 milestones, China is working hard to reduce its dependency on some critical bottlenecks within its technological sector - see, above all, naval, ballistic missiles and anti-missile technologies, aircraft engines, which have been provided in the last couple of decades by Russia.

In sum, according to the PLA's spokesperson at the 13th NPC, Senior Colonel Wu Qian, the whole budgetary policy regarding the military would mainly be addressed to the following four areas:

- launching of the main initiatives concerning the 14th five-year plan, together with a continued military build-up, especially in some key technological and tactical supremacy areas;
- upgrading and modernizing the current armament and weaponry;
- military training, including the development of innovative doctrines and training systems;
- promoting the implementation of welfare service for veterans while improving the economic treatment and quality standards of the military profession - a first time for a five-year plan to deal with such issues.

The 14th five-year plan comes amid a mounting regional instability, marked by the worsening of diplomatic and security relations between China and most of its neighbors. According to the latest issue of Military Balance, a review on international military capabilities and economics published by the International Institute of Strategic Studies (IISS), the total global military spending remained steady in the last year, notwithstanding the ravaging effects of the Covid-19 pandemic. This is due mostly to the growing instability of the greater Indo-Pacific area. All major countries in the region are set to increase their defense spending. Japan has already announced a record expenditure of $52 billion for this fiscal year. A great deal of money would be delivered to innovative and non-conventional military systems, to counterbalance the recent signs of progress of Beijing in the same areas. Moreover, Tokyo is reorganizing its intelligence capabilities, to be able to deploy more human-based assets in the region.

South Korea has announced almost the same amount - $50 billion, despite several forecasts pointing to Seoul's post-pandemic economic shortcomings. Taiwan has announced its highest military budget in history - more than $15 billion. In a similar fashion, India, and Australia - both countries experiencing very low bilateral relations with China, would increase the number of resources aimed at military spending and build-up. Southeast Asian countries entangled in territorial disputes with Beijing would also raise their military budgets. Although available sums are considerably smaller, military spending in Southeast Asia is projected to increase in the next years, due to regional impressive economic performances and increasing tensions in the South China Sea - the five-year plan is also dedicating an entire sub-section to the necessity for a Chinese national maritime law, a clear symbol of Beijing's concerns over disputes in the area.

The 14th five-year plan is addressing extensively to Hong Kong and Taiwan. As per what regards the former, the most important news from the 13th NPC was the decision to overhaul the electoral system of the city. According to the new proposal, the Legislative Council of Hong Kong (LegCo) would expand its total number of seats to 90, with the effect of diluting the effective percentage of members elected by popular vote. Most importantly, any potential candidate to the Council should be thoroughly vetted to obtain a qualification of patriot - a decision that, in the words of the reformers, should avoid any anti-China, foreign-driven hostile forces from meddling in the internal affairs of the city.

All this has the full approval of the PLA and its leadership, as stated by General Xu at the NPC: the amendment of the electoral system of Hong Kong, under Hong Kong's Basic Law and China's Constitution, is an important question on the agenda of the Communist Party, the nation and Hong Kong. As widely expected, the proposed reform of the electoral system of Hong Kong caused a series of reactions and condemnations from both the EU and the US.

As per what regards China's military position on Cross-Strait relations, Senior Colonel Wu Qian stressed again that the national rejuvenation and the reunification of China is a trend that cannot be stopped by anyone or any force. About the US call for China to stop military pressure on Taiwan, Colonel Wu answered that the situation is complicated and severe, and he went as far as mentioning the Democratic Progressive Party in power in Taipei as a factor of destabilization, due to its policy of relying on foreigners to seek independence by force.

Since September, PLA's Air Force sent several aircraft, including J-16, J-10 fighter jets, and H-6K bombers, into the Taiwanese's Air Defense Identification Zone, sparking a series of reactions both in Taipei and Washington. There is a consensus among analysts in considering such moves by Beijing as a direct consequence of a deeper relationship between the US and Taiwan under the presidency of Donald Trump. The US has also approved a series of weapon sales for an estimated value of almost $2 billion, including high-technological and deterrence weaponry, causing an uproar in Beijing.

Foreign Policy

by Stefano Sartorio

China's foreign policy after the 14th five-year plan is highlighted by a series of reassuring claims and expression conveying cooperation and integration, openness and participation on a win-win basis. On the other hand, also some harsher words have been used to reassert the country's decisive standing on core issues, such as the non-interference stance or the categorical refusal of certain scenarios.

On the diplomatic priorities, Wang Yi commented that 2021 will be a year of "epoch-making significance", being the centenary from the foundation of the communist party (23rd July 1921). From a broader point of view, the plan does outline some of the guidelines that Chinese foreign policy says being fundamental:

1. promoting international cooperation (i.e. policy coordination);
2. achieving mutual benefit and win-win results;
3. promoting the joint construction of the "Belt and Road" to achieve stability and long-term development;
4. promoting the construction of a community with a shared future for mankind.

"China needs to maintain a multilateral approach on issues, while making full and proficient use of international institutions"

These goals can be translated through 1) cooperation through foreign aid or loans, in exchange of political support, 2) preserving the legitimacy of the Party's rule on the country through the management of stability at home and abroad, 3) respecting reciprocal sovereignty and different political systems.

The plan briefly outlines Chinese intention to "actively participate in the reform and construction of the global governance system". In particular, in this regard the attention is put on the need to maintain a multilateral approach on issues, while making full and proficient use of international institutions such as the WTO or the United Nations. In particular, this year marks the 50th year of RPC presence in the Organization of the United Nations and Wang Yi commented on the saying that "China's vote will always belong to the developing world". In the country's vision, UN should remain a paramount point of reference in international relations between States, guaranteeing a higher influential power. Cooperation with G20, BRICS and APEC countries is underlined, also with the goal of "building an international cooperation platform, jointly maintaining the stability and smoothness of the global industrial chain and supply chain, the stability of the global financial market, promoting world economic growth”. This propension for a multilateral approach does not entail that the country will always interact on a multiple consultation basis. Since the Xi Jinping version of multilateralism is defined as “dialogue without confrontation, partnership without alliance”, it means that China might still prefer to opt for bilateral relations as the main way to achieve operational decisions.

The Belt and Road Initiative is also addressed by the Chinese policymakers. In particular, a more “normative” approach has been adopted while describing how the country will “promote the high-quality development of the "Belt and Road" joint construction”. Fostering the integration of strategies, plans, and mechanisms, and strengthening the connectivity of policies, rules, and standards seem to be the new policies Chinese authorities will pursue while implementing the initiative with other States involved.

When analyzing core issues more politically sensitive, the Chinese policymakers change their cooperative approach to a more assertive one. Regarding Taiwan, during the opening of the annual meeting of the Chinese National People Congress, Premier Li Keqiang said that the country is committed to “reunification” and relations growth with the island.

The position of State Councilor and Foreign Minister Wang Yi, expressed during a press conference held aside the 13th NPC, is that: 1) Taiwan is an inalienable part of the Chinese territory and it is a “historical and legal fact”. 2) The two sides of the strait will be surely reunified, being this a “trend of history”. On this point he said that China is rock-firm and will prevent any independence attempt. 3) The One China Principle is the foundation of Sino-American relations, becoming a red-line that must not be crossed. In the end, the plan does commit to develop peaceful development cross-strait relations, by outlining the intention of building a better economic integration of the markets. The plan also highlights the willing of increase cooperation in education, culture, health and youth exchanges in order to let “Taiwanese youth to come to the mainland to pursue, build and realize their dreams”.

Looking again at the press conference of Wang Yi, it is possible to see the increasing protagonism of Chinese foreign policy also in the health sector. While stating the successful containment of COVID 19, the foreign minister also declares the country’s will to “cooperate with other countries in solidarity and work tirelessly for humanity's final victory against this pandemic”. Through Wang Yi words, China aims at communicating the country’s inclination to lead the post COVID world. The foreign minister then opposed to the politicization of the vaccine cooperation, referring to the "vaccine diplomacy" (the use of vaccines to improve a country's diplomatic relations and influence on other countries) narrative on western media. The goal, following Xi Jinping, is to make Chinese vaccines a "global public good".

Regarding the relationship with the USA, Wang Yi stressed the need to respect the principle of non-interference. Addressing the issues of Xinjiang, Hong Kong and Taiwan, the foreign minister refused any concession: "For quite some time the United States has been willfully interfering in other countries' internal affairs in the name of democracy and human rights [...] and this created lots of troubles in the world". Resembling former Australian prime minister Kevin Rudd "managed strategic competition" theory (establishing hard limits on each country's security policies and conduct but allowing for full and open competition in the diplomatic, economic, and ideological realms), China aims at handling the heated relations between the two countries through enhanced dialogue and cooperation. This, in order to prevent miscalculation which, in turn, could lead to more serious skirmishes. Li Keqiang's 11th march discourse on the US-China relationships underline this conception, stressing the need to find new common grounds. The issue of Hong Kong is still of tremendous sensitivity. After the NPC approval of the LegCo legislative reform, a group of US senators and other representatives condemned the decision taken by China as hurting the autonomy and basic freedoms of Hong Kong. Moreover, State Department's spokesperson Ned Price stated that whether implemented, such measures would undermine Hong Kong's institutions, and that a collective action against China it is to be expected.

Referring to China and south-south cooperation, the Sino African relations had been highlighted as paramount model in this regard. Wang Yi also mentioned the willing of finding solutions to hotspot issues and maintaining peace and stability in the continent. Chinese priorities with African countries, vis a vis US influence, are economically and politically relevant. Ensuring reciprocal support in various political fora such as the United Nations (where 54 African nation States make up over a quarter of the 193 members) is pivotal for several core foreign and domestic policy issues, such as the Taiwan one. The same accent on cooperation is found when speaking of ASEAN countries and South American ones, under different shades. On the formers, Wang Yi sees that instabilities in the relations between the subjects concerned are driven from outside (mentioning also the South China Sea), precisely form the USA and from their "freedom of navigation policy". Nonetheless, the Regional Comprehensive Economic Partnership is celebrated along other initiatives as the Lancang-Mekong Cooperation and the ASEAN's Comprehensive Recovery Framework. On the latter, the stress is made on the "friendship from distant lands", based on economic and health support.

Wang Yi also spoke about the relationship with the European Union. Following the same pattern of the dialogue with Josef Borrel, High Representative of the Union for Foreign Affairs and Security Policy, on 8th February, underlining that "China welcomes an EU that enjoys strengthened strategic autonomy". The former refusing positions of Chancellor Angela Merkel and President Emmanuel Macron, disengaging from a US proposal of joining a democratic coalition, join hands with an apparent more pragmatic foreign policy from the EU in this regard. In reaction to the abovementioned reform of the Hong Kong LegCo, the European External Action Service released a statement by its spokesperson on the potential negative consequences of the implementation of the reform proposed at the NPC. Within the document, the EU is reserving the right to take additional steps in response to any further deterioration of political freedoms and human rights in Hong Kong.

Most probably, the issue of the reform of Hong Kong's electoral system would add further controversy to recent EU-China relations, already characterized by some critical voices in regard to the recently approved Comprehensive Agreement on Investment (CAI).

As per China's relations with Arabian countries, Wang Yi stated that even during the pandemic the relations never lowered in intensity, proven by the early resumed BRI project in the region. In this context, the country is promoting its commercial, energy, transportation, 5G, and infrastructure projects. China is the largest foreign investor in the Middle East region.

In the end, China's relations with Russia an India were addressed. On Russia, "friendship" between the two has been highlighted, pointing to a better integration between China's BRI and Russia's Eurasian Economic Union. On the 9th of March Russia and China signed a new MoU to build a lunar station together. In issues such as the countering of US narrative and diplomacy and energy and security, the relationship might flourish even more. The two countries close ties are a known historical fact. Their cooperation in regional diplomacy remains thigh, even if a closer "formalization and institutionalization" of such is quite improbable in the near future. Regarding India, Wang Yi said that the two countries are should pursue "development and rejuvenation together". The strategic rivalry between China and India is another core concern for Beijing. India continues to rely heavily on Chinese-made heavy machinery, telecom equipment and home appliances, making China the largest trading partner in 2020. This, even if India is trying to lower its dependance on the Asian neighbor. Disengagement on Pangong Lake in Eastern Ladakh along the LAC (Line of Actual Control) by the two countries helped ease the tensions of later this year, where Chinese and Indian soldiers lose their life in a border clash. More than that, what will define China's relations with India will be the accommodation or integration of the country in a possible future Chinese regional order (or vice versa). India lags behind Chinese "comprehensive national strength". Moreover, its ties with the US will shape next year country's foreign policy

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