



November 2020

## China's Fifth Plenum: Confidence in the Path

On October 29, the Communist Party of China (CPC) wrapped up its most important annual gathering, concluding the Fifth Plenum of the 19th Central Committee, the country's top decision-making body. This year's four-day meeting of 198 delegates and 166 alternates was held amid heightened uncertainty fueled by rising geopolitical tensions and a global recession triggered by the COVID-19 pandemic – even as China has rebounded by containing the virus and faces positive economic prospects.



Xi Jinping's position at the 'core' of the Party was further cemented.

For the CPC, the plenum reaffirmed Xi Jinping's central role in state affairs and the "core" of the Party. With Xi Jinping at the "helm", the communiqué issued at the conclusion of the meetings said, China will overcome all difficulties and obstacles. This was the first time a communiqué has referred to Xi in person. With no apparent successor, Xi is likely to lead China for one more five-year term (2022-27), and perhaps even longer.

For those operating in or with the Chinese mainland, there are no indications of significant policy rollbacks or change in direction. The communiqué underscored that market-opening measures, particularly those outlined in China's newly enacted foreign investment law, are likely to move forward, particularly in such areas as financial services and other non-manufacturing sectors. For foreign investors, tough choices remain, particularly in deciding how best to navigate business goals in an uncertain geopolitical environment.

The Fifth Plenum traditionally focuses on drafting the framework and priorities for the next Five-Year Plan (FYP), the economic and social development blueprint that will be deliberated at the annual session of the National People's Congress next March. This year's plenum focused on the achievements of the 13<sup>th</sup> FYP (2016-20), while outlining the broad goals of the 14<sup>th</sup> FYP (2021-25). This year also marked a milestone for the CPC in its goal to build a "moderately prosperous society" by 2021, the 100<sup>th</sup> anniversary of the CPC; with the long-term goal of becoming a "fully developed, rich and powerful" nation by 2049, the 100<sup>th</sup> anniversary of the founding of the People's Republic. At the Plenum, the CPC also agreed to a set of mid-term goals to be achieved by 2035, at which stage China is to have basically realized "modern socialism".

The communiqué underscored the aspirations and doubts of the moment, particularly Beijing's contentious relationship with the United States, China's biggest export market and a major source of investment capital and technology. While affirming the economic strides of the last five years and calling for quality and sustainable growth in the coming years, the CPC stated that "self-reliance in science and technology" was strategic for national development. Elsewhere, the document noted that the CPC's plans must account for "major changes" that the world hasn't seen "in a century".

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### KEY TAKEAWAYS

**13<sup>th</sup> Five-Year plan met:** As is tradition, the plenum reviewed progress made in the current five-year period, lauding the administration's achievements governing the country. Over the 2016-20 period, the communiqué said, annual grain production was stabilized at more than 650 million tons five years in a row. At the end of the five-year period, 55.75 million people will have been lifted out of extreme poverty and more than 60 million new jobs will have been created. GDP, meanwhile, will exceed RMB 100 trillion (USD 14.87 trillion) by the end of the year (see below). The advantages of China's socialist system were further affirmed, the communiqué noted, with significant progress elevating economic, technological, and national strength.

### The Domestic Sphere

**Quality over speed:** At the Fifth Plenum five years ago, China set a target of doubling 2010 GDP by 2020, with the aim of achieve a "moderately prosperous society" this year. In the communiqué this year, there was no such implicit growth target, with the Party instead stating that China would aim to achieve healthy, sustained economic development to 2025, characterized by "significantly improved quality and efficiency". It is unclear whether this means China will eschew setting a concrete growth target once the five-year plan is finalized.

**Positive growth in 2020:** The leadership once again expressed confidence that it would achieve positive growth in 2020, noting it expects GDP to exceed RMB 100 trillion (USD 14.92 trillion) this year. The IMF in October predicted China would be the only economy to record growth in 2020, forecasting a GDP rise of 1.9%. Either of these numbers would see China narrowly miss its 2015 goal of doubling 2010 GDP in 2020.

**Becoming "moderately developed":** The communiqué re-iterated China's goal to raise GDP per capita to the level of a "moderately developed nation" by 2035. Several former top government policy advisors have since noted China would need an annual growth rate of about 5% to 2035 to realize this goal.

**Dual circulation:** Though still lacking a comprehensive definition, the communiqué focused on "dual circulation" as a key theme for the next five-years, as a way to buffet the economy from external economic shocks. This will see China focus inwards to boost its local markets and domestic demand, while repurposing many of its export-focused productive factors to serve Chinese consumers (the "domestic cycle"). This will be supplemented by the "external cycle" of foreign investment and trade.

**Opening up to continue:** The communiqué stated that China would continue to open its markets across more fields, and at deeper levels, regardless of the current domestic focus. "The scale of China's imports and exports and the use of foreign capital and investment will continue to expand", a senior official said during the official press conference following the Plenum. The inward focus, he added, would not only stimulate the domestic economy, but also "create greater market opportunities for the rest of the world".

**Investing in the countryside:** As it declares victory eliminating extreme poverty in the countryside this year, the Party now aims to "revitalize" rural areas and stimulate domestic demand. This will see major investment in rural areas over the

Focus on 'high-quality development', eschewing the previous focus on 'growth-at-any-cost'.

'Dual circulation' will see a focus on developing the domestic market.

Opening up and attracting foreign investment to continue.

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next five years to develop and modernize the countryside and bring rural residents into the ranks of consumers. Expect investment in roads and rail, ICT networks, along with e-commerce logistics networks and hubs. Urbanization will also continue apace, with the government to subsidize small and medium cities which accept new migrants from the countryside into their social security systems.

**Tech innovation and self-reliance is an underlying priority – especially given recent trade tensions.**

**Innovation at the center of development:** Innovation, the communiqué said, is at the center of China's modernization efforts, and scientific and technological self-reliance is a 'strategic support' for national development'. Expect even greater investment in efforts to achieve technological independence, spurred by the economic and trade war with the US. Major breakthroughs, the communiqué said, would be achieved in core technologies by 2035, when China aims to be at the forefront of innovative nations globally.

**Focus on the real economy:** The Plenum noted the administration's focus over the next five years on ensuring financial policies support the real economy, a situation now ever more urgent given the strain COVID-19 has placed on jobs and businesses. This will ensure the government continues to maintain tight control of China's housing markets (which are different by city) to keep a lid on runaway speculation, while seeking to control the growth of other speculative financial instruments.

**Expect an acceleration in green policies to drive more blue skies and clear waters – and to build new expertise in green tech.**

**Green development remains a core focus:** In the weeks leading up to the Plenum, Xi Jinping underscored China's commitment to green development and pledged the country's CO2 emissions would peak by 2030, with China becoming carbon neutral by 2060. In the communiqué, the Party once again put green modernization front and center, noting China would accelerate green and low-carbon development, continuously improve environmental quality, and enhance the quality and stability of the ecosystem.

**Social security to expand:** The communiqué lauded the country's achievements in building the world's largest social security system, providing basic health insurance for more than 1.3 billion people and basic pension insurance for nearly one billion people. The document now called for efforts to build a more complete multi-level social security system, a more comprehensive health system, and consolidation and expansion of the gains made in poverty alleviation.

**The US is China's 'biggest external uncertainty', with rivalry set to define the years ahead.**

### Global Issues

**The "complicated international situation":** As is usually the case with these documents, the US nor other nations were mentioned by name in the communiqué. However, there is little doubt that the US is a key element in the "complex international situation" it mentions. In a report issued at the end of September, China's key macroeconomic planning agency noted China's rivalry with the US will be the "biggest external uncertainty" that might constrain China's medium- and long-term development but that "time is on China's side". Though there are some areas where cooperation is possible, such as on climate change, China has set itself for a protracted battle over technology and security in the coming decades.

**The communiqué called for efforts to ensure China is prepared for war, the first time this has been referenced in a five-year plan since the 1960s.**

**"Prepared for war":** Modernizing the military continues as a priority of the government, with the communiqué stressing the need to "comprehensively strengthen military training and preparation for war". While this language has been part of official discourse since 2017, it was the first time it has been used in

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the context of a five-year plan since the 1966-70 plan, which called for prioritization of national defense given the possibility of a major war. Since 2017, however, the focus has shifted from protecting China's interests along maritime trade routes and counterterrorism to defending China's sovereignty, security and "development interests". Considering the tensions across the Taiwan Strait, the South China Sea, and the border dispute with India, this marks a significant shift.

**Stronger management of Hong Kong to continue:** The communiqué marked a shift in language regarding Hong Kong and Macau, both of which operate under the principle of "One Country, Two Systems". Following Beijing bringing in new national security legislation for Hong Kong on June 30 this year, China now seeks to "maintain", rather than "support", long-term prosperity in the two areas.

**Belt and Road:** Continuing a theme from the Belt and Road Summit in 2019, and following criticism of its lending and sustainability practices across the initiative, the communiqué stressed that the Belt and Road would focus on "high-quality development". Expect the Belt and Road (which was enshrined in the CPC's constitution in 2018) to continue apace, but with greater focus on implementing modern risk mitigation and due diligence frameworks for projects.



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