The Chinese Five Year Programme (2011-2015) and Europe 2020

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SUMMARY

The Chinese Five Year Programme and Europe 2020 reflect the differing economic, social and political systems that produced them, and the ways in which they articulate their divergent economic challenges. Both see the immediate short term period as crucial for attaining economic transformation and steady and sustainable economic growth. But Europe 2020 takes a longer (10 year) and more wide angled view, while the Chinese Programme is more detailed and comprehensive.

Their economic strategies are different: China is looking to diversify and upgrade its industry in terms of the value chain, moving more towards domestic consumption; Europe is seeking to avoid slipping back to its pre-crisis ways by developing smart, sustainable and inclusive growth.

There are a number of areas where interests and aims overlap. Both are committed to wider international engagement, though Europe notes the threat to its competitiveness from China and other emerging economies. There is a strong emphasis on research and development in each; both, though from differing starting points, put strong emphasis on controlling emissions, energy efficiency and the development of new green technologies. Both recognise the need for changes in the international governance system, but they are also seeking to increase their own influence therein.

The Programme is an invaluable guide to the main lines of Chinese strategic thinking in a wide range of economic and social policy areas. It identifies the key objectives for China over the next five years, and shines light on opportunities for cooperation with international partners. The Programme will form the backdrop, both in the macroeconomic approach and in individual sectors, to the High Level Economic Dialogue with the EU.

In specific priority areas that the Programme sets out, those offering the strongest links to the EU agenda are climate change, green technologies, science and technology, education, development of services, digital technologies and improvements in the legal and regulatory environment. But it also highlights areas such as competition policy and market access where the EU will need to engage China more forcefully. The question remains how.

Main Points

- The Chinese Five Year Programme is a detailed and comprehensive document. It is approved by the National People's Congress and has the full authority of the Chinese Communist Party behind it. The European 2020 Strategy is more selective in its priorities and has less directive authority than the Chinese Programme.
- The economic strategies underlying the Chinese Programme and the Europe 2020 Strategy are very different. China is looking to diversify its industry and move towards domestic consumption; Europe's focus is on developing sustainable and inclusive economic growth and avoiding a return to its pre-crisis ways.
- There is a high degree of convergence between the Chinese and European documents in a number of key areas. These include: the transformational role of research and development;
an emphasis on green energy and carbon efficiency; education and employment; and governance. There are potential benefits to be gained from better cooperation between China and Europe in these areas.

- EU policy makers should regard the Chinese Five Year Programme as a document that informs all areas of Chinese policy. In essence, it gives the clearest insight into consensus within China on key developmental challenges for the next five years. It should form an important part of the strategic background for the EU’s Chinese policy making.
INTRODUCTION

The 12th Five Year Programme for the National Economic and Social Development of China was adopted by the National People’s Congress, China’s annual parliamentary meeting, on 14 March 2011. It is the strategic blueprint that sets out the overall goals and guidelines for Chinese domestic policy and, in particular, Chinese economic policy for the next five years. This paper compares the Chinese Five Year Programme with Europe 2020 and the strategic vision for European development set out therein.

NATURE OF THE DOCUMENTS

The Chinese Programme is a fully comprehensive document which has been worked through at all levels of the Chinese system. It has been approved by both the Party and the legislative/executive systems and has the full authority of the Chinese Communist Party behind it. But, unlike in the past when the Five Year Plan was a binding and directive document, the Programme sets goals and priorities and does not seek to direct every area of economic activity. It has few binding targets and those targets it does list will not necessarily be fulfilled. It is, by its nature, a consensus document with all the provinces and ministries having had a say in its drafting; it is important for the individual parts of the Chinese bureaucracy to have their projects and aims included in the plan in order to attract state funding and support. Its detailed implementation is carried out through annual national plans also approved by the National People’s Congress, with authority over the Chinese governmental system. The European 2020 Strategy is more selective, concentrating on three priorities supported by seven flagship initiatives. It is dependent for its implementation on national plans to be formulated by national governments, and has less directive authority than the Chinese Programme.

ECONOMIC ENVIRONMENT

The Chinese view of prospects is considerably more optimistic than that of the EU. For China the next five years are “a crucial phase in building a well off society in an all-round way” and a “highly significant period for deepening the reform and accelerating the transformation of the modes of economic growth”. This is set against a background in which they had addressed the “negative aspects caused by the international financial crisis and maintained a steady and rapid economic development”. It envisages an annual 7% growth rate over the next five years. In a Chinese context, this is a modest rate; the last Programme set a rate of 7.5% but actually exceeded 11%. It
underpromised and overdelivered.

All this stands in stark contrast with the EU, which sees itself as facing a moment of transformation following the crisis that “has wiped out years of economic and social progress and exposed structural weaknesses in Europe’s economy”. The financial system in Europe is still fragile and Europe is above all concerned that it does not slip back into its pre-crisis ways. Europe 2020 calls for collective action as a Union to take charge of its future and turn the EU into a smart sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. China is more comfortable with its existing policies, many of which are reiterated in the document, while the Europe 2020 strategy takes as a key theme the need to avoid going back to the previous policy mix.

CHALLENGES

Both documents acknowledge the continuing impact of the international financial crisis. For China, this is more a problem of global economic governance although it is also a major factor influencing global demand and thus its previous pattern of export led economic growth. But it is not the same level of threat as it is for the EU (“the recent economic crisis has no precedent in our generation”) and China does not face the continued pressure on national economies seen in the Euro area (“the still fragile situation of our financial system is holding back recovery as firms and households have difficulty in borrowing, spending and investing”). Both approaches recognise the significance of increased globalisation and the need to respond to this. Europe prides itself on having one of the most open economies in the world, but notes intensifying competition from the developing world and, in particular, the newly emerging economies.

For Europe, the problem is being faced with structurally lower growth rates than its main partners, while for China the problem is, if anything, the opposite in controlling growth. Both highlight problems surrounding employment – Europe’s employment rates average 69% for men and women aged 20-64. In China, many of the headline targets are concerned with keeping urban unemployment rates down (although the official rate of unemployment is only 4%, there is wide reporting of underemployment). For Europe, there is a set of issues around the demographic ageing of the population, leading to a smaller working population and a higher share of retired people. China has targets for continued slow population growth and, although ageing is mentioned, it does not have the urgency that there is in Europe - yet. Europe 2020 notes intensifying competition from the developing world and from China and India in particular, which is putting pressure on European industry to remain competitive.
More widely, both documents speak of major transformations of the economic structure. For China, this entails a move towards greater domestic consumption (currently this represents only 38% of GDP, falling from 45% in the late 1990s), with less reliance on the export driven sectors of the economy. China is looking to “elevate the core competitiveness of manufacturing industry, improving new and strategic industries” (energy conservation and environmental protection industries, new generation IT industry, biological industry, high end equipment manufacturing industry, new energy industry, new materials industry, new energy automobile industry), and speeding up the development of the service industry.

**HEADLINE TARGETS/AREAS IN COMMON**

The table in Annex 1 is based on the main policy priorities and targets set out in China’s Five Year Programme, with the headline targets and initiatives from Europe 2020 mapped on to it. Given the comprehensive nature of the Chinese document it is unlikely that there would be some form of matching target for every European priority. Nevertheless, there is a high degree of convergence in a number of key areas, particularly over the transformational role of research and development (both set specific targets in terms of the overall percentage of GDP), the emphasis on green energy and carbon efficiency, education and employment, and governance. There are numerous areas in the Chinese Programme which have no equivalent in the European document: for example, chapters on social management, law and order, democracy, military, and transport.

**RESEARCH AND DEVELOPMENT**

Research and Development (R and D) as a fundamental priority in both documents and an essential underpinning for economic development. Both have specific targets for significant increases in R and D spending expressed in terms of an increased share of GDP (EU at 3% of GDP and China at 2.2%). China sees this as essential to help the economy move further up the value chain (“scientific progress and innovation will support the transformation of the economic system”), while the EU seeks to meet the challenges of developing markets - such as China - which will increasingly compete with European manufacturing.

For both, R and D is part of a wider necessity to develop workforce skills, combined with a strong emphasis on education. The Chinese Programme calls for the development of education at all levels (a number of the headline targets refer to educational aspirations), and seeks to “nurture the scientific spirit, creative thinking and innovative capacities of students”. Two of the EU’s flagship
initiatives “Innovation Union” and “Youth on the Move” address this area of concern directly. The key for the EU, however, is not just to spend more but to achieve greater impact through education, training and lifelong learning.

Successful exploitation of new digital technology is another important element that is shared in both documents. China intends to construct a new generation national information infrastructure based on broadband which can lead to the informatisation of all economic and social activities, more e-commerce and a greater role for e-government. “A Digital Agenda for Europe” is one of the flagship initiatives to “deliver sustainable economic and social benefits form a digital single market”.

GREEN ENERGY AND ENVIRONMENT

The promotion of a more resource efficient, green and competitive economy is a key element in the European approach. The foundation of the pillar of sustainable growth - an area where Europe is seen as having a lead – gives Europe an advantage in the race to develop new technologies, including green technologies. The document contains headline targets for the achievement of 20/20/20 (reducing greenhouse emissions by 20%, an increase in the share of renewables to 20%, and 20% increase in energy efficiency). The EU calls for “drastic action” to meet climate and resource challenges, and is more strongly worded in this respect than the Chinese programme. It notes the need for outreach to other parts of the world in pursuit of a global solution to the problems of climate change. “An energy efficient Europe” is one of the flagship initiatives seeking to decouple economic growth from resource and energy use.

The Chinese Programme stresses the building of a resource saving and environment-friendly society. The relatively few binding targets among the headlines are all related to emissions control, and there are more of them than previously. China plans for more diversified and clean energy sources and, over the next five years, seeks to provide significant increases in hydropower (120 million kW), wind (70 million kW) and solar (5 million kW). More nuclear power will be developed on “a safe and efficient basis” (40 million kW), although the nuclear programme is now under review following the disaster in Japan. There is a whole Chapter on green development, green and low carbon development ideas, and on how to improve incentives and constraint mechanisms to achieve green goals (such as controlling greenhouse gas emissions, reducing energy intensity and CO2 emissions).

There are sections in the programme on construction (green building industry), energy conservation, developing recycling as a key feature in the economy and on improving environmental protection. Under “the principle of common but differentiated responsibilities”, China says it seeks a fair and
reasonable international system for confronting climate change and will participate in international discussions and seek areas of practical cooperation in research, development and capacity building.

**SOCIAL DEVELOPMENT**

For China, “the fundamental end of economic transformation is to improve people’s lives” and the programme calls (without giving figures) for a “significant reduction in the population in poverty”. But the main emphasis is on achieving an overall rise in living standards for both the urban and rural populations. This approach involves targets for the annual increase in per capita incomes (7% per annum for both rural and urban incomes), regular raising of the minimum wage (by 13% per annum), significant improvement in the provision of, and access to, welfare services (including medical services and pensions), the provision of employment as a priority, adjustments to tax and income distribution with higher taxes for high earners, and significant improvements to housing (control of the real estate market, provision of 36 million units of affordable housing).

For Europe, there were 80 million people at risk of poverty in the Western European Union prior to the financial crisis (19 million of them children). Europe 2020 calls for this figures to be reduced by 20 million. This is supported by the “European Platform Against Poverty”, designed to ensure economic, social and territorial cohesion to allow those living in poverty to take an active and dignified part in society.

**SERVICES INDUSTRY**

The development of service industries is a key area for China in its effort to move the economy towards domestic consumption and develop new sources of employment. The programme foresees extensive development of the services sector as part of the reorganisation of industrial structure. Financial services, modern logistics industry, high tech services, business services (supermarkets etc.), development of tourism, domestic service, sports facilities, and cultural industries are all mentioned as areas for development. The Programme promises fair and transparent market access standards, tax reform, and better government procurement to support the development of the service industries. For some economies in the EU, this is a key area for future potential cooperation because of the current strength of these sectors. There is, however, the question of how open China plans to make these developments to external actors. This is a key area of dialogue for the EU and China.
GOVERNANCE

Both see the need to be more involved in global international governance. There is a whole chapter of Europe 2020 concerned with the roles of the various institutions involved in implementing and overseeing the strategy. This would be redundant in the Chinese Programme where the roles of the various state and party institutions are well established. But the transformation of government functions and improving government’s credibility is a core task for China. This includes wider references to political reform (socialist democracy and the legal system will be improved), but there is also a strong stress on social stability and “social management” leading to a “harmonious and stable society” with considerable emphasis on improving social security systems, minimising wealth gaps, and developing grass roots (usually Party controlled) organisations. Fiscal, tax and financial reform is also an important target. The EU notes that stronger economic governance will be required to deliver results, with stress on the need for both EU unity in this endeavour and a regulatory environment that renders financial markets both effective and secure. There is no sign that the Chinese Communist Party will relinquish its monopoly on political power in China; indeed, throughout the Programme, it is clear that the priority remains developing a society where the Party remains in the vanguard.

INTERNATIONAL ASPECTS

The China Programme remains strongly committed to the policy of ‘opening up’. It aims to open the coastal areas even further, with the development of administrative management systems to achieve international competitiveness, further opening of the service sector, developing an international trade in services, and attracting foreign investment in the sector. Moving up the value chain is a central theme. China seeks to “stabilise and expand” foreign demand and to compete in future with “comprehensive advantages” rather than on cost alone. It envisages an increased level of foreign investment (in modern agriculture, high end technology, advanced manufacturing, energy conservation, new energy, and modern service industry). It aims to “make full use of the attractiveness and influence of China’s huge market”. China also sees itself as increasing its operations overseas - through building up its legal and regulatory system, as well as negotiating investment protection and double taxation agreements. It looks to “expand cooperation with developed countries”. It is looking to increase its influence in international economic and financial organisations; for reform of the international system “in a more fair and reasonable direction”; to work actively in the G20; and to oppose all forms of protectionism.
For Europe, China is both an opportunity and a challenge, with its investment in research and development putting pressure on some sectors of the European economy to remain competitive, including in the area of green technology. Europe is looking to export more to the developing economies which, to some extent, matches China’s willingness to import more consumer goods. Europe is determined to build a “strategic relationship” with the emerging economies “to promote regulatory and other cooperation” and to resolve bilateral issues (securing market access and a level playing field for European business). Europe states that it “adds value on the global scene” but will only be able to effectively deliver results if it acts jointly. Both China and Europe see the need for changes to the international financial system.

**POLICY IMPLICATIONS**

The Five Year Programme sets out some key strategic areas where the EU can focus its relationship with China over the next 5-10 years. There are clear areas of convergence, as well as evident differences.

Europe 2020 notes that China is both a challenge and an opportunity for the EU. Both these elements need to be taken seriously by EU policy makers, and integrated more closely into EU future projections. The challenges should not be underestimated, but equally they should not obscure the very real opportunities China’s continued development is bringing.

EU policy makers need to regard the Chinese Five Year Programme as a document informing all areas of Chinese policy and thus forming an important part of the strategic policy background for Chinese policy making. It will be highly relevant to the High Level Economic Dialogue, and both China and the EU have a clear commitment in their strategic documents to developing their exchanges at both policy and practical levels. In essence, it gives the clearest insight into consensus within China on what the key developmental challenges are in the next five years. As such, it acts as a ready-made basis for dialogue and supplies the best context for that dialogue. In the Chinese political system, consensus is hard won and so proposals or policy initiatives that stray from the parameters contained in the Programme will be very problematic.

China and Europe both recognise the crucial nature of the next few years and the need to work at improving and transforming the international economic governance systems. Chinese and EU interests are not the same and EU policy makers will need to engage with China particularly closely on the reform of the international economic system, where China has strong assertions of its interests and a belief in the unrepresentative nature of the current arrangement.
China remains committed to its opening up policy: it is seeking to move up the value chain which may bring it into increasing competition with some European sectors and may lead to a rise in the number of trade disputes and problems over accusations of protectionism. These areas will need to be addressed directly in the EU’s exchanges with China, and EU policy makers should be prepared for them.

The EU and Chinese positions on how best to deal with climate change remain very different. These differences need to be addressed directly and at a high level. Elite engagement to resolve contentious issues remains a characteristic of the current Chinese political order and will not change, at least not in the near future. China’s clear interest in green technology should be used as a means to engage it in other areas where it is less proactive - for example, signing up to binding emissions targets. Despite the disagreements at Copenhagen in late 2009, the Five Year Programme does make clear that there are deeper concerns that have appeared over the last 18 months about the need to urgently address climate change. China now sees it in its national interests to do so, and the EU needs to press this issue now that the opportunity has come, but without the political confrontations that arose at Copenhagen.

China is increasingly opening up to international trade and investment and a number of key areas are identified which can be followed up by the EU: there is a particular emphasis on the green economy and technologies (a European strength); service industries (again a European strength) and the development of new digital technologies. Questions remain over how open China will be to external actors. This will remain a key area of dialogue. There will be questions for Europe regarding how to respond to increasing Chinese investment particularly in strategic sectors.

China is committed to improving its regulatory environment – here, Europe has both a strong interest, experience and expertise to offer.

There are real opportunities for collaboration and exchanges over science and technology, including how best to deliver results from increased R and D efforts. An increasing emphasis on R and D is common to both strategies, and both envisage substantial extra spending on the area.

Education is another area with considerable potential synergies. The EU is already a major destination for Chinese students and the EU needs to develop this further.
## ANNEX 1: COMPARISON OF HEADLINE TARGETS AND PRIORITIES

<table>
<thead>
<tr>
<th>Priority Areas</th>
<th>CHINA</th>
<th>EU</th>
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<tbody>
<tr>
<td><strong>Economic Development</strong></td>
<td>Steady and rapid, growth of 7% per annum</td>
<td>Growth to be smart, sustainable and inclusive</td>
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<tr>
<td><strong>Upgrade of Science and Technology</strong></td>
<td>Research and Development expenditure to reach 2.2% of GDP 9 year education consolidated</td>
<td>3% of GDP to be invested in Research and Development, reduce the share of early school leavers to 10% from 15%, and increase the share of the population</td>
</tr>
<tr>
<td><strong>Economic Restructuring</strong></td>
<td>Consumption increases, service sector value added, development of strategic emerging sector</td>
<td>Industrial Policy for the Globalisation Area</td>
</tr>
<tr>
<td><strong>Resource conservation and environmental targets</strong></td>
<td></td>
<td>20/20/20 climate/energy targets to be met</td>
</tr>
<tr>
<td><strong>Increase in People’s Livelihood</strong></td>
<td>Annual increases of at least 7% in per capita incomes, rural and urban, 45 million new urban jobs, increased pension and medical insurances, 36 million new low cost</td>
<td>Raise the employment rate of the population aged 20-64 from 69% to 75%, Reduce the number of Europeans living below national poverty lines by</td>
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| **Reform and Opening**
| **up to be deepened** | Housing units, increase of life expectancy by 1 year, significant reduction in the numbers in poverty | 25%, lifting 20 million people out of poverty |
| **Improvement in Social Construction** | Fiscal, tax and financial reform, government credibility and administrative efficiency to be improved | Stronger economic governance required to deliver results |
| **Socialist democracy and legal system improvements, social management, harmonious society** | | |