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China's 14th Five-Year Plan: A First Look

The Communist Party of China (CPC)'s 19th Central Committee—a body of China's 376 top Party officials—held its 5th Plenum in late October 2020 to deliberate on China's 14th Five-Year Plan (FYP) for 2021-2025 and economic goals out to 2035. China's annual Central Economic Work Conference reviewed the plans in December ahead of the scheduled ratification of final versions at the annual session of China's legislature in March 2021. Initial details suggest that Chinese leaders plan to expand the state's role in the economy and advance national economic security interests; use market restrictions and its *One Belt, One Road* global networks to foster Chinese-controlled supply chains; and sharpen the use of antitrust, intellectual property (IP), and standards tools to advance industrial policies. To develop strategic technologies prioritized in its plans, China is prioritizing efforts to obtain foreign technology through global pathways that are not yet restricted, such as partnerships in open technology and basic research, the establishment of research and development (R&D) centers overseas, and talent programs for foreign experts to work in China. Plans for new market openings are limited to trade zones and areas where China seeks foreign expertise (emerging technologies and education) and capital (financial services).

Dual Circulation and Secure Supply Chains

China faces widening and deepening trade tensions, foreign pressures on businesses to move some production out of China, foreign government restrictions on technology transfer to China, and global scrutiny of Chinese overseas commercial activity. There is also broad international skepticism about China's commitment to market opening and global trade rules and norms. Chinese President Xi Jinping is reviving a "dual circulation" economic policy that his predecessor used during the 2009 financial crisis and the "supply side" reforms that Xi introduced in 2015 to upgrade industry and launch *Made in China 2025* (*MIC 2025*) industrial policies. Dual circulation refers to leveraging the dual forces of domestic and global demand by developing domestic capacity while pursuing openings in global markets. The policy aims to boost both domestic supply and demand in response to what Chinese leaders describe as a complex, unstable, and uncertain global environment. The approach is not a simple turn inward, but rather seeks to transfer and localize foreign capabilities in China and maintain access to global markets wherever possible—including for key inputs, technology, and exports—to develop China's capabilities. Dual circulation appears to have intensified China's non-reciprocal approach to trade whereby its market has become increasingly restrictive while Chinese firms expand overseas. In 2009, when global industry contracted, China subsidized production in 13 sectors, funding domestic purchases of these products and exporting excess capacity, a precursor to China's *One Belt, One Road* initiative.

Details to date about national, regional, and industry plans emphasize China's national economic security—including national economic, industrial, and technology development goals and economic competitiveness—and "properly handling the relationship between openness and independence." China's leaders seek to secure supply chains and boost self-sufficiency in agriculture, energy, technology, and industry. In a speech to the Party's Central Economic and Financial Working Group in April 2020, President Xi called for building "independent, controllable, secure, and reliable supply chains to ensure industrial and national security with access to at least one alternative source for important products." President Xi said China should "use existing global dependencies on China as a counterweight to pressures to shift manufacturing out of China" and "use the pull of China's market to attract global resources and deepen global dependence on China." Xi also called for developing and leveraging control of "core technologies"—in sectors such as high speed rail, telecommunications and power equipment, and new energy—and localizing technology and critical production in China, including through import substitution. *One Belt, One Road* is often cited as a network to facilitate secure trade and gain initial global footholds in *MIC2025* sectors. To counter offshoring pressures, for example, Hainan Province is reviving trade zone incentives for manufacturing that processes imported inputs for re-export (e.g., duty free import of raw materials, components, and equipment) and air and shipping logistics. China is also looking to other priorities, including:

Agriculture. The government is drafting a food security plan, making provincial governors responsible for grain security measures, increasing domestic capabilities, and diversifying sources for agricultural imports. China is focusing on seed technology and plans to introduce new strains with higher yields (a potential nod to biotech now that China owns Syngenta), and boost production of high quality grains and soy. Diversification arguably is affecting China's shortfalls in meeting purchase targets set by the January 2020 U.S.-China trade agreement.

Technology. China is developing strategic technologies and digital infrastructure (including a cryptocurrency), and aims to advance its digital infrastructure and domestic rules globally. China's stimulus committed $1.4 trillion over five years for digital infrastructure, including 5G, smart cities, and Internet of Things applications for manufacturing. U.S. business has expressed concerns that (i) these sectors are already restricted, and (ii) procurement in areas such as cloud computing could favor Chinese firms and require technology disclosure and data localization.

Finance. China is developing a central bank digital currency to try to influence global finance and e-commerce, and to diversify from U.S. dollar financing. The city of

Shenzhen and Hainan Province are to pilot cross-border cryptocurrency trade and cash pooling of foreign exchange and China's currency, the *renminbi*. The zones are also promoting financial services investment; the securitization and trading of data, energy, IP, and real estate assets; and cross-border financing for Chinese technology firms.

Environmental Technologies. China's pledge to peak CO_2 emissions by 2030 relies on *MIC 2025* goals in power and new energy technologies and materials, such as batteries. Plans call for half of vehicles to be electric or fuel-cell powered, and the other half hybrid by 2035. China's environmental and technology goals are mutually reinforcing; the 14th FYP environmental policies could bolster China's efforts to upgrade manufacturing and require foreign technology transfer to meet new standards.

"Indigenous" Innovation and Basic Research

Chinese leaders arguably are emphasizing technology independence and indigenous innovation—longstanding themes in China's industrial policies—while prioritizing China's ability to continue to access foreign technology and global markets. The 5th Plenum Communique reinforces innovation as the core driver of China's development, a direction set in 2006 with China's Medium and Long Term Plan for Science and Technology (MLP) and the 13th FYP. These plans called for developing indigenous capabilities, decreasing dependence on foreign technology, and advancing emerging technologies. This process of "indigenous" innovation involves the introduction, absorption, and adaptation of foreign technology that is rebranded as indigenous Chinese capabilities. The Party's emphasis on developing domestic innovation capabilities has underpinned aspects of China's industrial policies of concern to Congress, such as forced technology transfer, industrial subsidies, state-financed acquisitions of foreign firms in strategic sectors, cyber intrusions, and IP theft.

The Chinese city Shenzhen is piloting 14th FYP innovation priorities that include a focus on foreign partnerships and overseas centers for basic research. China's talent plan incentives include visas and permits to facilitate frequent cross-border travel, work, and permanent residence of foreign experts in China. Reforms seek to commercialize research, transfer government patent rights to innovators, and revitalize national labs. China is looking to securitize IP and develop digital IP rights to foster the trade of IP. China is targeting foreign collaboration in basic research, open technology, and overseas research centers to leverage areas that may fall outside current application of export controls and remain open for U.S. cooperation. These ties allow China to develop capabilities in priority areas, such as semiconductor design. Many countries' export controls focus on applied (but not basic) research and technology transfer across national borders. China's new semiconductor policies encourage foreign academic and industry collaboration and Chinese corporate R&D centers overseas. In June 2020, Chinese firms Huawei and San'an Optoelectronics announced a $1.2 billion R&D center in the United Kingdom to develop semiconductor chips. Many top Chinese technology firms—including Alibaba, Baidu, and Tencent—have U.S. R&D centers.

State Control and Financing

In September 2020, the CPC Central Committee called for strengthening Party control of the private sector to "build a backbone of private economic actors that are reliable and useful at critical moments." President Xi has called state firms an important pillar for the Party to govern and rejuvenate China, saying they must be stronger, better, and bigger. State funding continues to underpin priority sectors. The funding is challenging to track through a complex web of onshore and offshore corporate and financial vehicles, including government guidance funds; local government, insurance, and asset management companies; venture capital and private equity; corporate bonds; and stock listings.

Standards, Antitrust and IP Tools

China is mid-stream in advancing priorities set in the 2006 MLP and the 13th FYP. New plans will likely continue to advance sectors and projects prioritized in these plans and *MIC 2025*—including aerospace, artificial intelligence, biotechnology, information technology, semiconductors, quantum computing, robotics, advanced machinery and rail, deep sea technologies, and new materials. China will likely introduce new projects and areas of emphasis, as well as policies to advance its next stage of development in these areas, including commercialization, standardization, financing, and export promotion. New plans emphasize standards development, and antitrust and IPR enforcement to advance industrial policies. These tools were used during China's 12th and 13th FYPs to require foreign technology and IP licensing, joint ventures, and divestitures to Chinese state firms. In 2018, China consolidated market competition, IP, and standards authorities in a powerful new regulator—the State Administration for Market Regulation (SAMR)—that is poised to play a key role in implementing the 14th FYP. Since then, China's Academy of Engineering and SAMR have been developing *China Standards 2035*, a plan to set standards to advance Chinese industrial goals and create interoperable civilian and military standards, raising questions about the dual use nature of Chinese overseas infrastructure. China's standards setting may focus on new technologies where China is likely to have greater influence in the absence of existing rules.

Issues for Congress

In response to China's plans to further lean on state-led development, Congress might:

- examine China's complex structuring of government industrial subsidies that make it difficult to determine the state's role and subsidization under global rules;
- respond to China's unconventional use of antitrust, IP, and standards tools, including potentially sharpening U.S. authorities and strengthening the U.S. role in global technical bodies to counter China's policies;
- examine the implications of China's access to U.S. open source technology and basic research and whether export controls should be tightened; and
- consider how trade policy might enhance supply chain security and trade and technology collaboration among U.S. allies and partners.

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