China in 2021: Quantifying quality growth

In its fourteenth five year plan, China has outlined a vision for achieving high-quality growth. Here's what it means in practice

Iris Pang: China in 2021

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To be an advanced economy means a lot for China

We've already written extensively about China's 2021 goals here. The vision for 2035 provides a little more quantification. China wants an "advanced economy" in fifteen years' time. There is no specific definition of this. But we can make some estimates.

Using the latest World Bank data. China's GDP per capita is US$10.6 thousand. That compares to US$18 thousand for Greece. The UK, France and Japan are all about $39 thousand. While Germany is US$45 thousand, and the US is US$63 thousand. That shows where China stands relative to most advanced/developed economies.

From this standpoint, China's objective in terms of GDP per capita would be to at least double within the next 15 years. And that is an aggressive target.

To realize this vision, China must pursue two main strategies

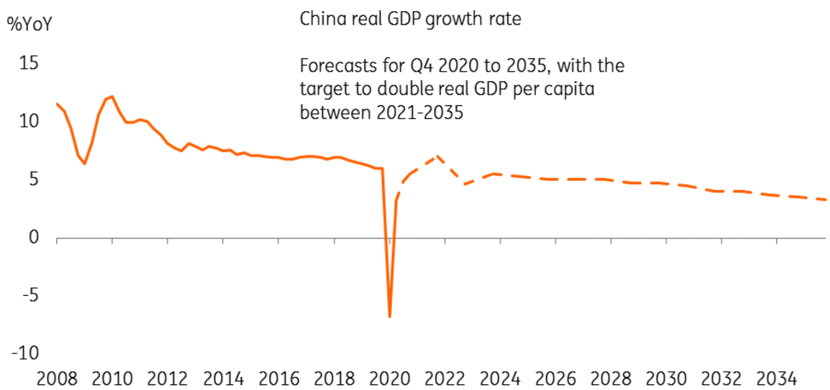
1. Become self-reliant in technology;
2. Export green products, such as vehicles, renewable energy technologies and so on, areas where it's starting to have a technological advantage.

Achieving these objectives would help China sustain continuous income growth, as well as speeding up the engine of "domestic circulation", creating more jobs from domestic consumption of goods and services.

While this may sound simple, it will be quite a challenge. China has relied on exports of technology for more than ten years. Although these were predominantly basic products using elementary technological inputs, they provided more than a third of China's export value. This has been changed by the technology war. China has responded by promoting a new export area, "green" exports. As more countries set Environment and Social Governance (ESG) targets, they need renewable energy, waste management, and water management systems, which China has been developing and can now export, and which will face far less resistance from other economies.

Our simple growth projection for the next 15 years is as follows: There will be faster growth in the first five years, but then slow gradually in the remaining years up to 2035. This projection assumes a roughly stable population. Promoting higher child-birth has been successful in some areas in China. But this policy also faces an ageing population, and won't make much difference to the labour force over this timescale. Our projected real GDP growth rate is 4.5% on average for 2021-2035.

Growth in 2021 should be much stronger than this at around 7%.



Source: CEIC, ING

Projection of GDP according to the 2035 envision to become an advanced economy by 2035.

Technology war is still the number one risk in 2021

The biggest risk factor in 2021 is still the technology war, which we have incorporated into our forecast. This is not just confined to the US and China. Many more economies could become reluctant to use Chinese-made technology because of security concerns.

Interest and exchange rate reform is both risk and opportunity

We don't expect any significant changes in monetary policy in 2021. The People's Bank of China (PBoC) will take advantage of the stable interest rate environment, to promote market-based interest rate instruments on loan products to pave the way for further interest rate liberalisation.

The PBoC will do the same for exchange rate liberalisation. The recent fading out of the counter-cyclical factor in daily USDCNY fixing is a step in this direction. USDCNY and USDCNH will be more sensitive to intraday market information. And the CNY trend will also be more market-driven. We expect USDCNY to reach 6.30 by end of 2021.

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