

China's Policy Think Piece Series Issue No. 3

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China's 13th Five-Year Plan (2016-2020):

Redefining China's development paradigm under the New Normal

November, 2015



Fung Business Intelligence Centre



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China's 13th Five-Year Plan (The 13-5 Plan): an overview

The 13-5 Plan: an introduction

- The Five-Year Plan is a blueprint that details the government's main policy goals and development initiatives for a period of five years
- The 5th Plenum of the 18th Communist Party of China (CCP) Central Committee, which took place during 26-29 Oct 2015, approved the CCP's 'Opinions' on the 13-5 Plan, which covers the period from 2016-2020
- Based on the CCP's Opinions, the government will then formulate an 'Outline' of the 13-5 Plan, which will be approved at the annual National People's Congress meeting in March 2016
- All ministries, industries and local governments will release their own 13-5 plan in due course, based on the 'Outline' of the 13-5 Plan
- This report is a review and assessment of the 13-5 Plan based on the CCP's 'Opinion'

The significance of the 13-5 Plan: decisive for building “a moderately prosperous society”

- **The year of 2020: a critical milestone in China’s long-term development**
 - The year of 2020 is a very critical milestone in China’s long-term development, marking the first 100 year of China’s “two 100 years” (**Box 1**)
 - In China’s various long-term social and economic plans, many decisive results are scheduled to be attained by 2020

Box 1

The Concept of “two 100 years”

The Concept of “two 100 years” refers to both the CCP and the People's Republic of China lasting at least a century each. The goal of “two 100 years” is to realize “the Chinese dream” of “the great rejuvenation of the Chinese nation”.

- **The 13-5 period will be decisive for building “a moderately prosperous society”**
 - The 13-5 is to conclude China’s various development plans targeting at building “a moderately prosperous society” by 2020 (see later for elaboration)
 - The 13-5 is the first five-year plan since China’s economy has entered the “now normal” stage. It is to help China adapt to, get hold of, and lead the development of the “new normal”
 - The 13-5 is the first five-year plan under President Xi’s leadership. It is seen as reflecting Xi’s overall development strategy and his governance philosophy of the “Four Comprehensives” (**Box 2**)

Box 2

The "Four Comprehensives"

The "Four Comprehensives" raised by President Xi represents his philosophy of governance. With the Four Comprehensives, Xi is highlighting what he believes are the four most important policies to make the Chinese dream a reality:

- *to comprehensively build a moderately prosperous society;*
- *to comprehensively deepen reform;*
- *to comprehensively govern the nation according to law; and*
- *to comprehensively strictly govern the Communist Party.*

The key theme of the 13-5 plan: redefining China's development paradigm under the New Normal

- As the most frequently used keyword in the Opinion, “development” appears in the Plan for more than 70 times
- The key theme of the Plan is to redefine the concept and path of development for China under the 'new normal' during the coming decade and beyond
- The transformation of the development model is seen in the Plan as "a deep reform that would have profound impact on the overall development of the nation"

The overarching goal of the 13-5 Plan: building a “moderately prosperous society”

Box 3

A “moderately prosperous society”

A Chinese term first used by Deng Xiaoping in 1979 to describe a vision for moderately well-off society for China. Nowadays it describes the blueprint for China to develop as a modern industrialized country with higher levels of wealth, quality of life, living environment and civilization.

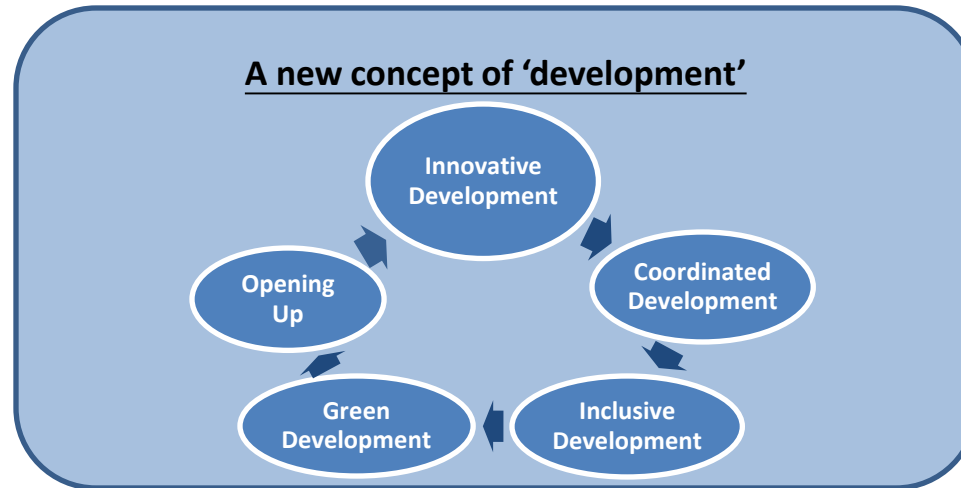
New objectives in the 13-5 Plan on top of the “moderately prosperous society”

- **Medium-to-high economic growth**
 - An average annual economic growth rate at 6.5% or above
 - Doubling GDP and per capita income by 2020 from 2010 levels
- **General improvement in living standards and quality of life**
 - moving closer to full employment
 - improving access to public services
 - eradicating poverty
- **Culture and civilization**
 - promoting public morality such as patriotism and collectivism
- **Environmental protection**
 - encouraging low-carbon production and “green” lifestyle,
 - raising energy efficiency
 - reducing pollution
- **National governance system**
 - developing sectoral governance systems
 - rule of law
 - credibility of judiciary
 - human rights and property rights



Redefining China's development paradigm under the 'New Normal': the concept

China's development paradigm under the New Normal: The concept



A Lower target growth rate

- Development is still seen as the top priority
- Economic growth rate will change from high-speed to *medium-to-high*
- Specifically, the official bottom line for growth has been lowered to 6.5% p.a. (vs. 7% in the 12-5 period)

Changing patterns of economic development

- The focus will be shifted from scale and speed to quality and efficiency

Adjustment of the economic structure

- The objective will be changed from the expansion of production volume and capacity to the dual goal of adjusting stock and upgrading the quality of production

Transformation of the engine of development

- Instead of continuing to rely on natural resources and low-cost labor, the leading engine of development will be innovation



Redefining China's development paradigm under the 'New Normal': the path

Innovative Development as the backbone of the new development paradigm

1 Develop new drivers of development

- Domestic consumption: Increase domestic consumption and guide consumers toward green, healthy and safe goods and services
- Investment: Encourage private investments through financial reform and financial innovation
- Export: Upgrade China's position in global value chains by cultivating strengths in technology, standards, brands, quality and service

2 Establish new spaces for development

- Geographical regions: Establish economic belts along the coastline, rivers and major transportation lines, and develop city clusters and hub cities as regional centers
- Emerging industries: Nurture environmental, biotechnology, IT, smart manufacturing, high-tech equipment, and new energy industries; and support upgrading of traditional industries
- Infrastructure: Accelerate infrastructure construction, liberalize natural monopoly industries (e.g. electricity, natural gas, telecommunications)
- Internet+: Develop Internet of Things (IOT), shared economy and big data strategy

3 Upgrade industrial structure

- “Made-in-China 2025”: Improve efficiency, product quality and brand reputation
- Strategic industries: Development emerging industries with the help of government investment
- Smart manufacturing: utilize new technologies in manufacturing
- Develop modern services: support further market access to services, upgrading both production services and consumption services

4 Strengthen innovation in science and technology

5 Modernize agriculture

6 Deepen institutional reforms

- Administration: Improve efficiency and increase delegation of power
- State-owned enterprise (SOE): improve operational efficiency
- Macroeconomic control: progressive price liberalization for commodities and services
- Fiscal system: optimize taxes to facilitate development, increase transparency of budgeting
- Financial system: Marketization of exchange rate and interest rates, bigger share of private-sector capital in the banking system, innovative financial services, reform of supervision framework
- Business environment: reduce red tapes and facilitate fair competition

Coordinated Development

1 Coordination among regions

- Development strategies for each region
- Freer flow of factors of production
- More equal access to public services

2 Balance between rural and urban areas

- Development of small- to medium-sized cities
- Increase of rural per capita income
- Improvement in rural infrastructure and public services
- Reform of “hukou” system

Green Development

1 Accelerate the Development of Functional Regions

- Define the key functions (e.g. ecological conservation, agricultural, industrial) of certain geographical regions

2 Support Clean Production and Low Carbon Economy

- “Energy revolution” – shift to renewable energy
- Support recycling and low-carbon transportation systems
- Control emission by strengthening regulation and supervision

3 Conserve Resources

- Promote conservation among industries and consumers, emphasizing on water resources

4 Environmental Protection

- Reform environmental governance structure, e.g. set up a pollution permit system
- Preserve and restore natural environments

5 Harmonized Development Between Nature and Mankind

- Incorporate ecological concerns in urban planning and management of agricultural areas

Opening Up

1 The “two-way opening up” and trade structure upgrading

- “Two-way opening up”: Attracting foreign investments and encouraging China enterprises to go abroad
- Optimize trade structure, improve border crossings and enhance economic cooperation zones

2 Actively participate in global economic governance

- Participate in rule-making
- Promote multilateral trade agreements

3 The Belt and Road Initiative

- Enhance co-operations between China and Belt and Road countries, with private enterprises taking a leading role
- Enhance cooperation with international financial institutes on AIIB, Silk Road Fund and New Development Bank

4 Reform institutions for international integration

- Implement national treatment and negative list for foreign enterprises
- Financial liberalization: supporting RMB’s inclusion in Special Drawing Right (SDR) and its progress toward free convertibility. Gradually release restriction for overseas investment
- Signing bilateral investment agreements

Inclusive Development

1. Improve supply of public goods and services, especially in less-developed and poor rural areas
2. Implement two-child policy to counter aging population
3. Increase the size of funding dedicated to poverty reduction and improve infrastructure and public service in poverty-stricken regions
4. Improve employment support policy and services, and provide vocational training to raise labor quality
6. Expand middle-income group and significantly raise income for lower income group
7. Improve social insurance system to cover all residents in China and lower insurance rates to a reasonable level
8. Improve public health system through deepening medical reform



Implications for Business

1. The end of cheap and low-quality China

- China is the world's largest manufacturer, accounting for one fifth of global manufacturing output. Its massive capacity and low cost have long contributed to low prices of manufactured goods worldwide.
- For a long period of time, however, 'made-in-China' was synonymous with low quality, largely because of the fierce competition in China to press down the cost.
- But the era of cheap and low-quality China may be drawing to a close with the soaring labor cost, increasing land prices, environmental and safety regulations, as well as rising emphasize on quality, authenticity and innovation.
- For companies doing business in/with China, adapting to such changes and tapping into China's other advantages, such as the rising productivity and sophisticated industrial chains, is becoming critical for avoiding losing ground in China in the coming years.

2. Technological and business-model innovations are nurturing waves of entrepreneurs and formidable competitors in China

- The 13-5 Plan stresses that the nation's future as a global power rests on its ability to build an innovation-led economy.
- China has already emerged as a major exporter of high-tech products, from solar cells to high-speed trains. With ambitious "Made in China 2025" strategy and well-financed projects to promote innovation, China's progress in science and technology is expected to be solid.
- In particular, China is one of the leaders in business model innovation. Many Chinese companies are changing the rules of traditional business with innovative models.
- Both technological and business-model innovations are nurturing waves of entrepreneurs in China, who are disrupting the ways businesses have traditionally been done, and thus changing the global competition landscape. It's time for companies worldwide to think about what this could mean to them.

3. Further market-oriented reform is changing the business environment for companies

- The deregulation measures and the reforms of SOEs would permit private companies to enter most industries other than those related to national security, such as banks, infrastructures, public services, new energies, telecom, medical services etc. This would significantly boost the growth of the private sector, and lift China's growth potential in the coming decade.
- The adoption of the negative-list approach in market access and pre-establishment national treatment system for foreign investment, better-defined boundaries between government and market, and proper rule of law would mean more investment opportunities and a more open, efficient and transparent business environment for foreign investors.

4. The leading role of city clusters in urbanization and regional development would have implications for companies' locational strategy

- During the 13-5 period, the spatial expansion of development area is seen as one of the drivers of China's development, and the strategy is to make city clusters the primary focus of such expansion.
- In particular, the role of city clusters along China's major development corridors in leading China's urbanization and regional development is emphasized in the Plan.
- In China, cities are increasingly functioning in clusters. The clustering effect allows cities to better utilize resources and benefit from mutual competitiveness.
- For companies seeking opportunities in China, managing their business by city clusters may allow them to leverage the linkages among different cities and serve larger market areas from a smaller number of locations in different clusters, thereby achieving synergies among these cities and reducing operational cost.

5. Efforts in optimizing trade structure and promoting cross-border ecommerce are changing China's trade pattern

- China's export structure has evolved radically over the past three decades, from labor-intensive and low-end manufacturing to the world's largest exporter with increasing product sophistication.
- With progress in industrial upgrading, further removal of administrative barriers, and efforts in signing free trade agreements during the 13-5 period, the structure of export is expected to further move up the value chain.
- Another dramatic change in China's trade structure is the surging import demand. With the expansion of middle class driven by higher wages and rising prosperity in the nation, selling to China is becoming a viable choice for foreign companies.
- More recently, cross-border e-commerce, including both import and export, has become a rising tide in China. Chinese shoppers frequently cross borders and buy products online, and sellers are exporting their products online with diversified business models.
- Companies doing business in/with China must take into account China's changing trade pattern when formulating their business strategy.

6. Changes in the population policy and possible implications

- Starting from the 13-5 period, the new fertility policy allowing all couples to have two children will be fully implemented to boost the nation's birthrate .
- This could be an immediate boost for baby/child-related consumption such as infant formula, baby care products, clothing, education etc., and may help raise China's long-term growth potential by easing the decline in the working age population.
- However, international experiences and local situations show that this new policy may have only modest effects in lifting China's fertility rate, which reads between 1.4 to 1.5 currently.
- Other policies, such as raising the retirement age and encouraging woman to work, however, may have even more significant impact in mitigating the consequence of an aging population.

7. Rising expectation on companies' social and environmental responsibilities

- As income increases , the public in China has become increasingly concerned about the impact of environmental degradation on their health. Under this backdrop, environmental protection and low-carbon economy are among the top priorities in the 13-5 Plan.
- Companies operating in China will face stricter environmental regulations, such as on carbon emission and wastewater treatment. This is likely to increase compliance cost and necessitate investments in energy-efficient machineries, technologies and production processes.
- However, the Plan will also bring huge business opportunities in green industries, including renewable energy, fuel-efficient automobiles, environmental-friendly materials and recycling.
- The private sector assumes significant responsibilities in the inclusive development goals in the 13-5 Plan. Companies will be expected to contribute to inclusive development in various ways, such as paying higher wages, improving their salary-adjustment mechanisms, developing pension schemes, and training workers.

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