Prosperity for the masses by 2020

The ruling Communist Party of China (CPC) adopted the blueprint for the 13th Five-Year Plan (13th FYP) for 2016-2020, at its Fifth Plenary Session of the 18th CPC Central Committee which ended in Beijing on 29 October 2015.

The eight-chapter, 22,000-word document — the CPC Central Committee’s Proposal on Formulating the Thirteenth Five-year Plan on National Economic and Social Development — sets out the goals, principles and targets for China’s development in the next five years, and will have significant business implications, not only for China, but also for the world, given the size and global influence of China’s economy.

**Background**

China has made remarkable progress to date:

- Becoming the world’s second largest economy, the largest trading nation, the largest destination for foreign direct investment and the third largest global investor, together with the largest foreign exchange reserves
- Achieving average GDP growth of 7.8% over the past five years, 48.1% of which was contributed by the services sector of the GDP, exceeding manufacturing and construction
- Reaching an urbanisation rate of 55%, lifting over 100 million people out of poverty in the past five years

Despite these achievements, the 13th FYP recognised that China faced several major structural challenges, including:

- Over reliance on exports and fiscal investment for GDP growth
- Industrial over-capacity and declining profits
- Widening gap of development/income between regions and social groups
- Severe environmental pollution and rising constraints of natural resources
- Rising cost of labour, education, housing and healthcare
- An aging population
- Government over-regulation and poor quality services.

China’s economic growth has slowed down to 6.9% in the first three quarters of 2015.

In the words of CPC leadership, China’s economic growth model is “unbalanced, uncoordinated and unsustainable”, and must be changed.
The 13th FYP is the first five-year plan formulated under President Xi Jinping’s leadership and considered to be strategically important as the year 2020 will be the centennial anniversary of the founding of the CPC and the deadline for realising China’s goal of becoming “a moderately prosperous society in all respects”. In other words, China needs to double its 2010 GDP and per capita income of both urban and rural residents by 2020 – an enormous task given the current economic uncertainties.

To achieve the goal, the party has underlined five guiding principles:

- **Objectives**
  - Achieve more balanced, inclusive and sustainable development by coordinating a range of economic indicators
  - Maintain medium-high economic growth
  - Plan better allocation of resources
  - Raise the efficiency of investment and companies
  - Promote advanced manufacturing and agricultural modernisation
  - Become an innovation-driven nation
  - Keep encouraging mass entrepreneurship
  - Continue raising the service sector’s contribution to GDP
  - Further increase consumption’s contribution to economic growth
  - Increase the pace of urbanisation
  - Narrow the income gap, eliminate poverty and improve people’s livelihood through expanded public services on employment, education, culture, social security and healthcare
  - Further open up its economy
  - Vigorously promote environmental protection and low carbon growth

President Xi Jinping later elaborated that, to achieve the goal, China would need to maintain an average annual GDP growth rate of 6.5% until 2020. This growth rate, coupled with a smooth transition to a growth model primarily driven by consumption and services, will hopefully guide the economy into its “new normal” period and help China avoid the “middle-income trap.”
The CPC proposed the following specific action points and targets for each aspect of the 13th FYP.

**Promoting innovation and technological advancement**

In declaring, China’s future development “must rest on the basis of innovation”, the CPC has made clear the strategic importance of innovation in the 13th FYP.

- Call for exerting the leading role of science and technology innovation through strengthening basic research and re-innovation of existing technologies
- Encourage Chinese research institutions to conduct cutting-edge research and places significant value on “subversive technological breakthroughs”
- Implement the Internet+ Action Plan to develop application technologies for the Internet of Things
- Change government functions from research and development management to “innovations services”, with a focus on making new breakthroughs in next-generation communications, new energy, new material, aerospace, biological medicine and smart manufacturing
- Provide better protection of intellectual property rights
- Lay out the government’s plans to:
  - Set up a batch of leading innovation enterprises, create innovation cities and regional innovation centres
  - Establish an Industrial Technology Innovation Alliance to promote cross-sectoral and cross-territorial innovation
  - Give universities and research institutes the liberty to become innovation leaders with greater powers in making decisions on research and funding
  - Carry out several major national science and technology projects, and set up national-level laboratories in the next five years
  - Take the lead in organising international scientific programs and projects
  - Carry out its national big data strategy and promote open sharing of data resources
  - Encourage the integration of the Internet with traditional sectors of the economy and all kinds of Internet-based innovations, including those in industrial organisations, business models, supply chain and logistics
  - Promote start-up incubators and crowd-funding, and encourage angel investment and venture capital investment
  - Build a ubiquitous and fast mobile information network to balance improvements to the transportation and mail delivery networks
**Industrial transformation**

Manufacturing remains the keystone of China's economic growth and the basis for building an innovation-driven nation as well as for overseas expansion.

- Press ahead with the Made in China 2025 initiative, which is China's most comprehensive and ambitious industrial plan to upgrade its manufacturing

- Concentrate on the development of the ten priority strategic industries, namely:
  1. The next-generation information technology
  2. Numerical control tools and robotics
  3. Aerospace equipment
  4. Ocean engineering equipment and high-tech ships
  5. Railway equipment
  6. Energy saving and new energy vehicles
  7. Power equipment
  8. New materials
  9. Medicine and medical devices
  10. Agricultural machinery

**Ten priority strategic industries**

- The next-generation information technology
- Aerospace equipment
- Railway equipment
- Power equipment
- Medicine and medical devices
- Numerical control tools and robotics
- Ocean engineering equipment and high-tech ships
- Energy saving and new energy vehicles
- New materials
- Agricultural machinery

- Elevate China's position in the global value chain by adding more value and technology in more products
- Increase the flexibility, intelligence and sophistication of the manufacturing sector
- Absorb excess capacity in certain industries through economic and legal means to improve market exit mechanisms
- Step up efforts to cultivate production-related services and improve market access
- Facilitate the transition of manufacturing to a new growth model of production services
- Promote clean industrial production, low-carbon development and energy conservation to ensure sustainable growth
- Steer traditional manufacturing along an environmentally friendly path, establish a low-carbon production system and encourage businesses to upgrade their technology
- Establish a green development fund to promote clean production through clean energy, green transportation, control of carbon emissions in major industries and a circular economy
Given China’s appalling environmental conditions in recent years, the CPC has been paying increasing attention to environmental protection and has vowed to build a “beautiful China” by “prioritising ecological progress and incorporating it into all aspects and the whole process of advancing economic, political, cultural and social progress.”

### Energy revolution

- Advance the energy revolution by ramping up the exploration of clean, safe resources to replace coal and other fossil fuels in line with its green growth plans
- Continue to develop wind, solar, biomass, water, geothermal and nuclear energy. Grant natural gas exploration rights to more companies and encourage exploitation of shale and coalbed gases. Nuclear power will be developed in a safe and efficient manner
- Construct energy storage and smart grid and develop distributed power
- Raise the energy conservation standards for buildings and promote green building and green building materials
- Boost low-carbon public transportation with an improved rail transport system
- Promote cycling and new energy vehicles to encourage a “green” and sustainable lifestyle
- Take pro-active actions to control and cut carbon emissions, especially of energy-intensive industries such as power, steel, chemical and architectural materials

### Green transformation

- Establish a capping system on the total volume of pollutants and a permit system for companies to discharge their emissions
- Establish a system to allocate pollution rights, carbon emission rights and energy and water use rights for enterprises, whereby they will have to pay for the extra water and energy usage and waste discharges while reaping a profit by selling their surpluses
- Promote the green transformation of the traditional manufacturing industry and speed up the development of low-carbon and recycling industries, with a commitment to make green competitiveness a new engine of economic growth
- Implement a prevention and rehabilitation action plan for air, water and land contamination in the next five years
- Control and reduce agricultural pollution

### Resource management

- Speed up the construction of “main functional areas” as the basis for spatial development and protection
- Promote conservation of energy, water and land resources and implement the strictest water resource management and pilot a crop rotation and fallow system
- Ban commercial logging of natural forest and improve forest growing stock. The country will also strengthen protection of endangered species through breeding centres and gene banks, while improving management and control of wildlife imports and exports including ivory

As stipulated in the new environmental law, the 13th FYP reconfirms that government officials will be audited upon leaving their posts on the balance sheets of natural resources.
In line with its international commitments, according to official statistics, China is planning to invest US$6.6 trillion in the coming decade on low carbon technology, renewables, energy efficiency and emission reduction products, generating huge business opportunities for Chinese and foreign companies along the way.

**4**

*Reforms of state-owned enterprises (SOEs)*

**Internal reforms**
- Improve SOE vitality, controlling power, influence and resilience
- Strengthen its supervision over state assets by shifting its focus to capital management
- Encourage more state capital to be invested into the sectors and industries that are of significance to national security and the national economy
- Reduce government intervention in the operation of enterprises, reduce administrative approvals, break regional market segmentation and sectoral monopolies and create a fair competitive environment for all enterprises

**Private sector participation**
- Encourage the private sector to enter into industries dominated by SOEs and participate in SOE reforms through merger and acquisitions or mixed shareholding
- Open up currently monopolised sectors, such as oil, natural gas, electricity, telecommunications, transportation and utilities, for private investment, in a bid to create competition

**5**

*Urbanisation and infrastructure investment*

China is still at the early stage of urbanisation. The CPC anticipates over 100 million farmers will become city dwellers, generating a market of US$6 trillion relating to their settlements and employment in the next five years.

**Regional development plans**
- Coordinate regional development to achieve balanced growth, by improving infrastructure development in the western region while rejuvenating the north-eastern industrial hub and facilitating the rise of the central region
- Enhance support to less developed regions, such as ethnic minority communities and border areas as well as resource-constrained and ecologically degraded regions, and help shift excess industrial capacity from the affluent coastal cities to developing western regions
• Enlist the three grand regional integration initiatives – the “Belt and Road” initiative, the Beijing-Tianjin-Hebei integration plans and the Yangtze River Economic Belt - as strategic priorities for urban development in the next five years. (The Yangtze River Economic Belt alone covers 11 provinces and 40% of the population)
• Support the development of a series of city clusters across the country

Urban planning
• Call for proper and green city planning and industrial layout designs, and integrated growth of urban and rural areas
• Support the enhanced connectivity of inter-city transport and communications as well as the development of green cities, smart cities and forest cities
• Further reform the household registration systems (hukou system) to enable rural families to settle in cities and enjoy equal rights and the same treatment as city dwellers

Infrastructure
• Expand the space for infrastructure construction and speed up the building of next-generation infrastructure projects that are high-speed, mobile, safe and ubiquitous
• Improve the networks for water, rail, road, shipping, aviation, sewage and post services
• Draw up plans to open up the competitive businesses of power, banking, transport, telecommunications, oil and gas and public utilities

6 Promoting the development of culture

• Promote the development of public culture services, the cultural industry and the cultural market
• Foster leading enterprises of culture and the creative culture industry
• Promote the mass health building programme and do best for Beijing Winter Olympics in 2022
• Push for a harmonised growth of traditional and new media industries
• Speed up the construction of media digitalisation
• Promote a wider spread of Chinese culture abroad

Population
• Adopt a two-child policy so as to promote the balanced development of the Chinese population. It is estimated that under this new policy, 6 million more babies will be born each year, generating an infant-related goods and services consumption market worth US$16 billion
• Provide assistance to families who have been subject to the one-child policy but are now facing difficulties. Establish a family-based multi-level care service system with participation from communities and institutions to address the issues arising from ageing population
• Gradually postpone the statutory retirement age

7 Improving people’s health, education and livelihood

The government wishes to make consumption a key pillar of growth for China in the next five years. To make it happen, it recognises that it must properly address the following issues:

Healthcare
• Build a “healthy China” with an efficient basic healthcare system in both urban and rural areas by improving the management of public hospitals, unburdened from the necessity of seeking profit alongside personnel and remuneration systems appropriate to the health industry
• Further improve the monitoring of healthcare quality and mechanisms to mediate medical disputes so as to restore harmony in doctor-patient relationships
• Adopt cyber-medicine and optimised distribution of resources so as to improve the quality of basic health services
• Encourage the private sector to provide healthcare services by giving them the same status as public institutions
• Recognise prevention as the most efficient way to lower the costs for treating a wide range of illnesses
• Appropriately price medication
• Increase the free supply of HIV treatment medication
• Reduce the costs for treating other chronic diseases
• Support Traditional Chinese Medicine

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China’s 13th Five-Year Plan and its business implications

**Social insurance**
- Put into place “a more equitable and sustainable” social insurance scheme covering all citizens, with reduced premium rates
- Expand investment channels for social security funds and intensify risk control in order to improve their investment returns
- Raise the proportion of earnings from state assets which will be turned over to public finance, and transfer a portion of state assets to enrich the social insurance funds
- Implement the critical illness insurance system at “full scale,” which covers both urban and rural residents. (At the end of September 2014, about 650 million of the 1.3 billion Chinese were covered by critical illness insurance)
- Make elderly care services a fully open market

**Education**
- Improve the quality of education and bridge the urban-rural gap, providing subsidised education for all poor students for the duration of their nine years of compulsory education
- Promote universal education for students of senior high school age, remove senior high school education tuition fees for poor students and gradually waive tuition fees for vocational education
- Improve the quality of higher education, by elevating the quality of certain universities and subjects to, or close to, the standards of top-ranking global schools
- Promote fairness in education and speed up the standardisation process for urban and rural schools
- Encourage the private sector to invest and provide diversified education services

**Income distribution**
- Adjust the country’s income distribution system and narrow the income gap so as to “significantly” increase the wages of the low-income population, and increase the proportion of middle-income group
- Promote the mechanism of collective negotiations for wages and further increase the minimum wage levels
- Take a more positive approach by launching a free professional skills enhancement programme for the peasant workers and people from unprivileged backgrounds
- Remove barriers and restrictions for employment, and encourage more people to start their own businesses

**Poverty reduction**
- Adopt a series of targeted poverty-relief policies and improve infrastructure in rural areas, including roads, access to water, power and the Internet
- Enhance education, healthcare and public services in poor areas, and to build a service system to take care of “left-behind” children, women and the elderly
- Increase fiscal input and widen financing channels and mobilise social forces in the battle against poverty
- China has made remarkable progress in poverty relief. It was the first developing country to meet the Millennium Development Goals (MDGs) target of reducing the population living in poverty by half ahead of the 2015 deadline. Despite this, China still has 70 million people in the countryside living below the country’s poverty line of 2,300 yuan (US$376) annual income at 2010 prices

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Promoting global collaboration

A distinctive feature of the 13th FYP is that it’s the first five-year plan that shifts from the traditionally domestic focus to a much wider international perspectives by including more cross-border issues, in line with China’s rising position in today’s global economy.

Belt and Road2

- Call for the construction of regional transport passageways and “international economic cooperation corridors” along the route
- Enhance energy cooperation
- Jointly build offshore industrial clusters
- Promote the development of local industrial capabilities
- Bring benefits to the people of countries and regions along the route through collaborations in education, science and technology, culture, tourism, healthcare and environmental protection
- Collaborate with international financial institutions such as the Asian Infrastructure Investment Bank, the New Development Bank, together with China’s Silk Road Fund to attract worldwide financial support

Free trade zones

- Actively engage in global economic governance and actively influence the global economic agenda
- Promote the multilateral trade negotiation process and accelerate the establishment of more Free Trade Zones (FTZ) as well as negotiations of the Regional Comprehensive Economic Partnership and APEC Free Trade Area. (At present, China has already signed 14 FTZ agreements with 22 countries and regions around the world, with another five agreements under negotiations)

Sustainable development

- Actively participate in the UN climate change negotiations and cut its emissions
- Expand the scale of foreign aid to developing countries and contribute to the 2030 Agenda for Sustainable Development

These statements and plans, while demonstrating China’s commitments as a responsible player of the international community, reflect China’s confidence as a world power and its rising global perspectives and aspirations.

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2 The “Belt and Road” initiative, which refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road, proposed by President Xi in 2013, aims to revitalise trade and investment links between Asia and Europe. The network passes through more than 60 countries and regions with a total population of 4.4 billion.
Foreign trade and investment

Inbound investment
- Improve investment environment and reduce market restrictions in order to attract foreign investment and technologies
- Fully implement a pre-establishment national treatment to foreign investors
- Adopt a “negative list” model, which states sectors and businesses that are off-limits to foreign investment
- Further, open up currently monopolised sectors to foreign investment over the next five years, such as oil, natural gas, electricity, telecommunications, transportation and utilities to encourage competition
- Further, open up the services sector, including banking, insurance, securities and elderly care
- Enter into mutual agreements on exempting visa requirements and bilateral investment treaties with more countries

International trade
- Adopt a pro-import policy while continuing to promote its exports
- Consolidate the market shares of exports
- Expand the export capability of equipment and machinery
- Further develop the trade in services
- Explore innovative models of foreign trade, equipment manufacturing and services
- Support will be given to coastal areas to participate in global economic cooperation
- Establish advanced manufacturing bases and economic zones, and continue to improve border and cross-border economic cooperation zones

Outbound investment
- Encourage Chinese companies to invest overseas and sell more Chinese equipment, technology, standards and services to foreign countries
- Encourage Chinese companies to further their cooperation with foreign peers to improve their equipment manufacturing capabilities, added value and technological competitiveness
- Further integrate into the world’s supply chains and value chains through establishing overseas production bases and financial services platforms

Financial reform and Renminbi internationalisation

Banking
- Develop universal financial services, especially to cover the needs of the poor and small enterprises
- Accelerate reforms in China’s financial system to establish a transparent and healthy capital market and improve its efficiency in serving the real economy
- Overhaul the issuance and trading mechanism of stocks and bonds
- Encourage direct financing
- Lower leverage ratio
- Transform the banking system into a multi-level and diverse system, and provide more financial support to small and micro-sized businesses and rural regions and impoverished areas
- Continue with the reforms of market-oriented exchange and interest rate calculations
- Improve management and services of financial institutions
- Reduce the cost of financing
- Relax restrictions and allow more private entities to establish banks
Financial innovation

- Promote and regulate the development of Internet financing
- Boost the development of new financing vehicles, such as P2P and crowdfunding
- Speed up the establishment of a disaster insurance mechanism
- Pilot the trading of insurance assets
- Provide strong support to green finance, including the issuance of green bonds. In October, the Agricultural Bank of China issued its landmark listing of Renminbi and dollar-denominated green bonds with a total value of $1 billion at the London Stock Exchange. The issue was four times oversubscribed

Gradually make the Chinese yuan convertible on the capital account
Further expand the investment quota for qualified foreign institutional investors (QFIs)
Increase the exposure and wide usage of the currency in international markets

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Promoting government reform

The government has vowed to promote the administration of rule of law, innovate its ways of macroeconomic control and social governance, and continue to fight corruption.

Define the role of the government as providing universal and equal public services for education, employment, social security, basic healthcare and public health, public culture and environmental protection
- Innovate the way it provides public services by procuring services from social organisations wherever possible
- Restrict intervention in market activities, streamline regulations and fee collections

- Reduce administrative approvals and create an open and fair market competition environment
- Improve the transparency, predictability and consistency of various policies
- Advance the timeliness and accuracy of the country’s economic operations
- Set up risk identification and pre-warning systems on a wide range of aspects of the economy to improve its risk prevention and control capabilities

Cement achievements made in the anti-corruption campaign and tighten supervision and checks over power, in addition to working out an effective mechanism to stem corruption

Financing for local governments

- Share fiscal revenues between the central government and local governments in a more reasonable way
- Establish a standard financing mechanism for local governments

Renminbi internationalisation

- Continue to press ahead with capital account liberalisation and the internationalisation of the Renminbi, which is already the world’s second currency for global trade finance and became the fourth most-used world payment currency in August 2015
- Actively push for wider international support for the inclusion of the Renminbi in the IMF Special Drawing Right (SDR) basket

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Next steps

According to China’s political process, the CPC is responsible for formulating a proposal document that maps out the goals, principle and targets for the next five-year plan. The State Council will then add flesh to the bones and work out a more detailed outline, which will then be submitted to the top legislature – the National People’s Congress - for review and ratification in March 2016.

Following that, each province and central government ministry will accordingly formulate its own five year plan and be responsible for implementations.
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