

13th Five Year Plan (2016 – 2020)

Opportunities & Risks

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**Could 2016 be the most
difficult year for economic
adjustment?**

Discuss ...

2016: A Year of Challenges?

- Equity markets **down 20% in first month** of 2016
- Further **RMB depreciation**
- Surging **debt to GDP ratio**
- Declines in **manufacturing & trade**
- Stock market **crash** and **investor confidence low**

Maybe its time to start paying attention!!!

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The 13th FYP

“Creating a moderately prosperous society”

What is the Five- Year Plan?

- A semi-long term government framework of **economic, social** and **environmental** policies.
- Outlines **industry and regional focus** for strategic **economic growth**
- Discusses **reforms** or new **policies** to be expected

China's Five Year Plans: A Brief History

By Fielding Chen and Tom Orlin, Bloomberg Intelligence Economist
Design by Pekka Aulis, Bloomberg Brief Graphics Designer

The history of China's five year plans shows a transition from over-reaching political ambition to measured economic progress. Bloomberg Intelligence Economics reviews the key aspects of the first 12 plans.



1953-57: "What can we make? Tables, chairs and tea pots... we cannot make automobiles, airplanes, or tanks," says Chairman Mao. The first plan has China adopt the Soviet approach to accelerating development.



1966-70: The third plan focuses on defense amid escalating tensions with the Soviet Union and U.S. The chaos of the Cultural Revolution interrupted.

1976-80: "Socialist countries can also adopt the market system," says Deng Xiaoping. Mao's death in 1976 opens the path to economic stabilization.



1986-90: "Whatever is good for productivity growth can be utilized," says Deng. But rapid credit expansion and a shift away from government-set pricing triggers a surge in inflation, which along with popular protests puts reformers on the back foot.



1996-2000: "State-owned enterprise reform is at the center of economic reform," says Jiang Zemin. Unemployment comes for about 10 million workers, but the path is cleared for a decade of private sector-led growth.



2006-10: "We should adhere resolutely to the direction of reform," says Hu Jintao. Financial crisis and political inertia get in the way. Credit and investment surge and reform of state firms stalls.



1971-75: Economic planning takes a back seat to political campaigns. As workers leave factories to attend mass rallies, unrealistic growth targets prove impossible to meet.

1958-62: "We can surpass the U.K. in seven years and in another eight or ten years we can surpass the U.S.," says Mao. The Great Leap Forward ends in failure and famine.

1981-85: "The experience in the past 30 years tells us that it's impossible to develop the economy if you close the door," says Deng. Agricultural sector reforms end rural collectives and start the household responsibility system.



1991-95: "Let some get rich first," says Deng. His 1992 tour through export-focused Shenzhen restores momentum to pro-market reforms.



2011-15: "China must accelerate changes in the current development model and strive to adjust the economic structure," says Hu. Rapid progress on reforms is unable to prevent a slowdown in growth.

2001-05: "The first two decades in the 21st century is a strategic period for China. We must grasp the opportunity," says Jiang. Entry into the World Trade Organization in 2001 ignites China's ascent up global economic rankings.

www.bloombergint.com

The Five Tenets

The Five Tenets

Innovation

Driver of economic development to shift China's economic structure into a higher-quality growth pattern

Coordination

China should utilize both domestic and global markets
be more active in global governance

Green Growth

Development means protecting the environment and pursuing environmentally friendly economic growth

The Five Tenets

Opening Up

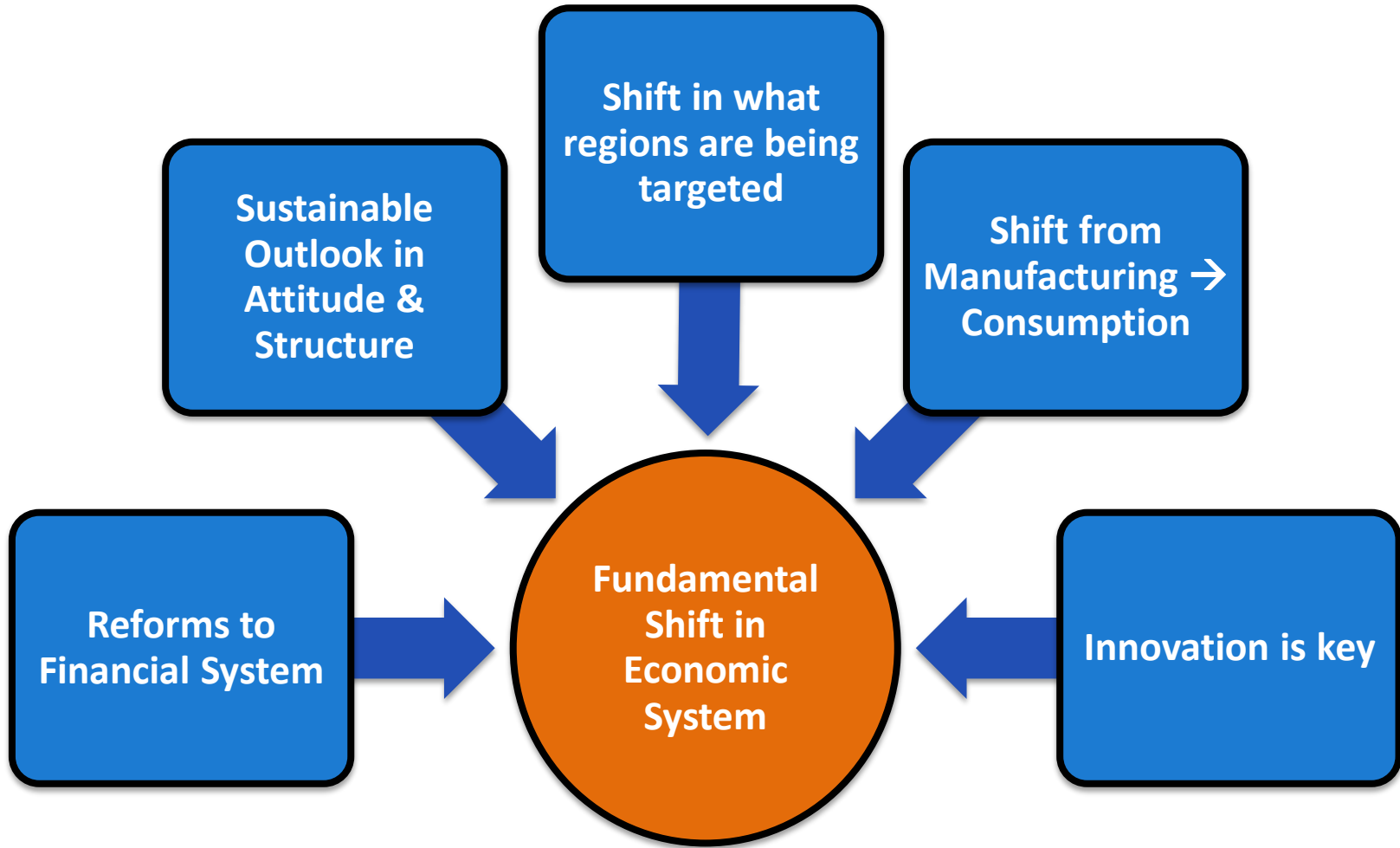
To ensure balanced development among rural and urban areas, and across different industries is also emphasized

Inclusive Development

Ensure prosperity is shared with the whole nation and improved social services

Shifting the Economy

Shifting & Rebalancing Economy



13th FYP Targets

- Close the **middle income** economic trap
- **6.5%** GDP annual growth targeted.
- Population living in rural **poverty** will be reduced by 70million
- Annual income per capita will reach **12,600 USD**
- **25 million** new jobs created each year
- Ongoing **Urbanisation**



New Normal Growth

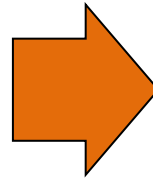
Old model is out of steam

Medium / High Growth Plan

- Finding **new drivers of growth** by promoting **Innovation, Entrepreneurship & Consumption**
- Annual GDP growth should not fall below **6.5%**
- Incremental opening up and **marketisation**
- Full **RMB Convertibility**
- **Negative List** approach to managing foreign investment
- **SOE** reform through a 'mixed ownership' model
- Inclusive Growth to achieve the **China Dream**
- **Hukou Reform, Urbanisation & Extension of Urban Welfare**
- **Development clusters serving as growth hubs**

Shifting Economy

BIG Industrial
Economy



POWERFUL
Industrial Economy

New sources of growth combined with domestic protectionism

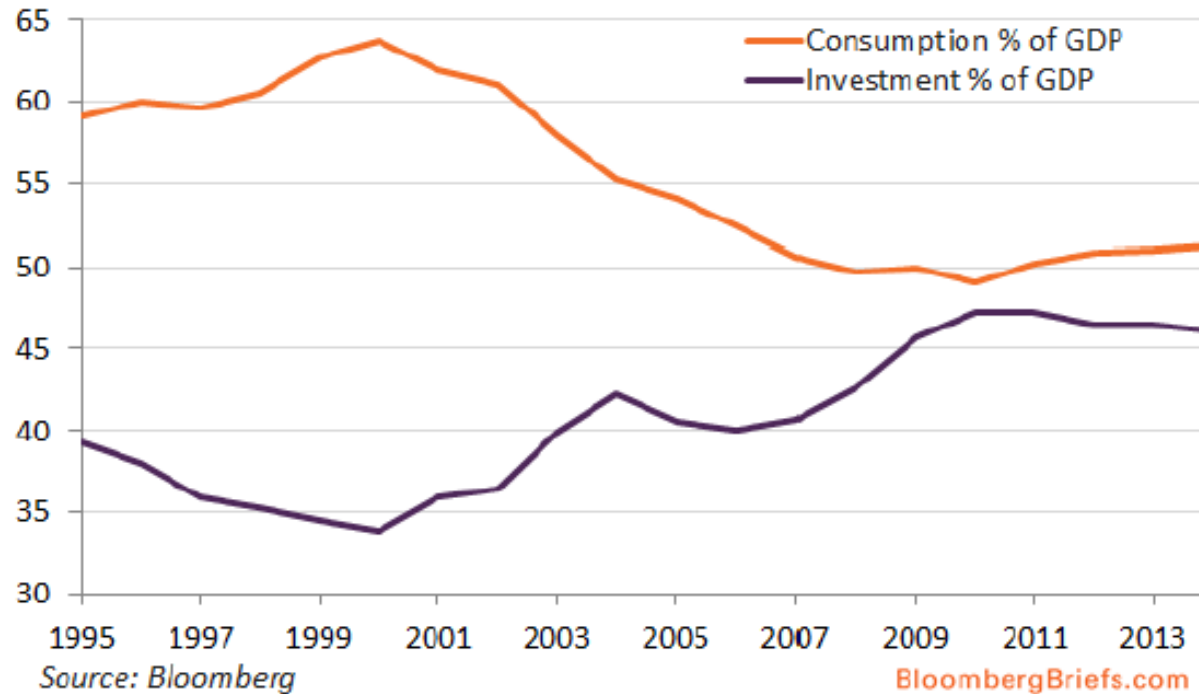
Consumption growing rapidly

Rising Middle Class

Reasons for Economic Shift

Consumption & Investment

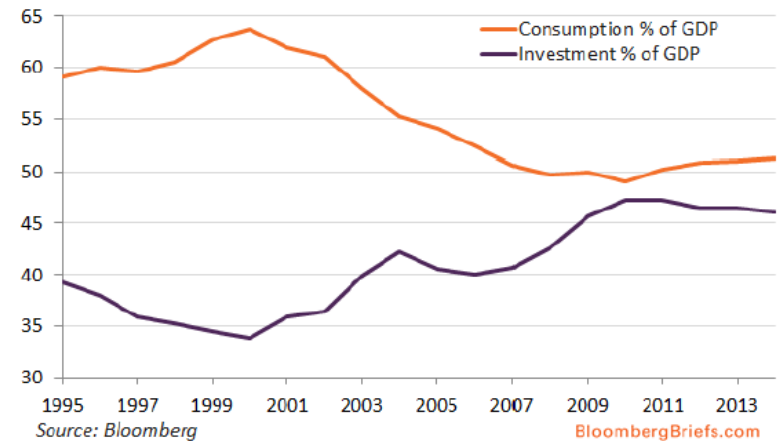
Consumption and Investment as Share of GDP



How will China get to 6.5%?

- Aiming for a **significant increase** in share of **consumption with GDP**
- More liberal spending supported by **welfare services** to prevent precautionary saving
- Investment to consumption as driver of demand
- Manufacturing to services as source of output
- Low cost assembly to **high value innovation**
- State to Private Ownership
- Credit Intensive growth to deleveraging

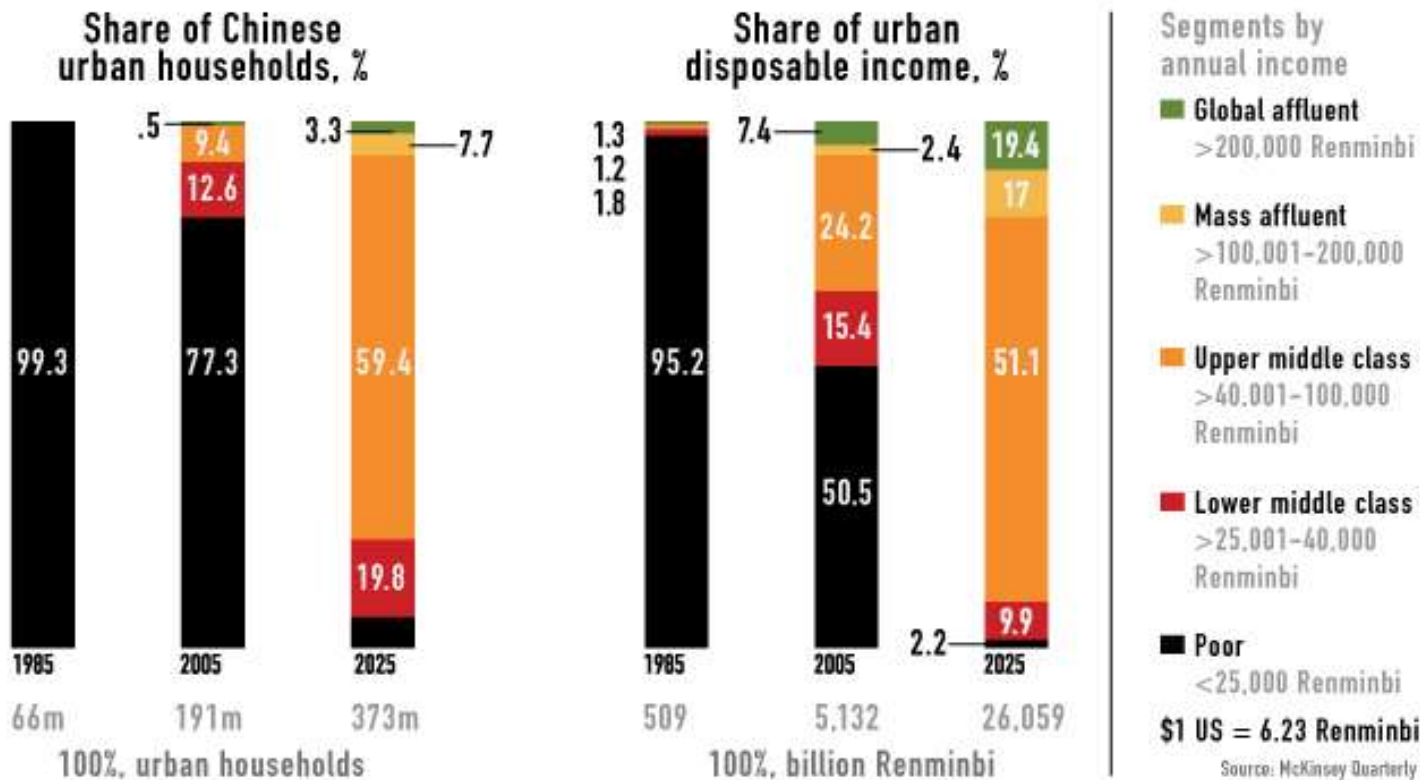
Consumption and Investment as Share of GDP



Rising Middle Class

CHINA'S SPENDING POWER ON THE RISE

A booming economy has lifted millions from poverty, with the middle class expected to power growth.



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Greater Efficiency

- Slower growth calls for more **efficient** companies
- Rising wages means companies need to be more **productive**
- Manufacturing for low wages **not possible** anymore



Major Initiatives

One Belt One Road

- Maritime Silk Road & Economic Belt
- Over **60 countries** involved

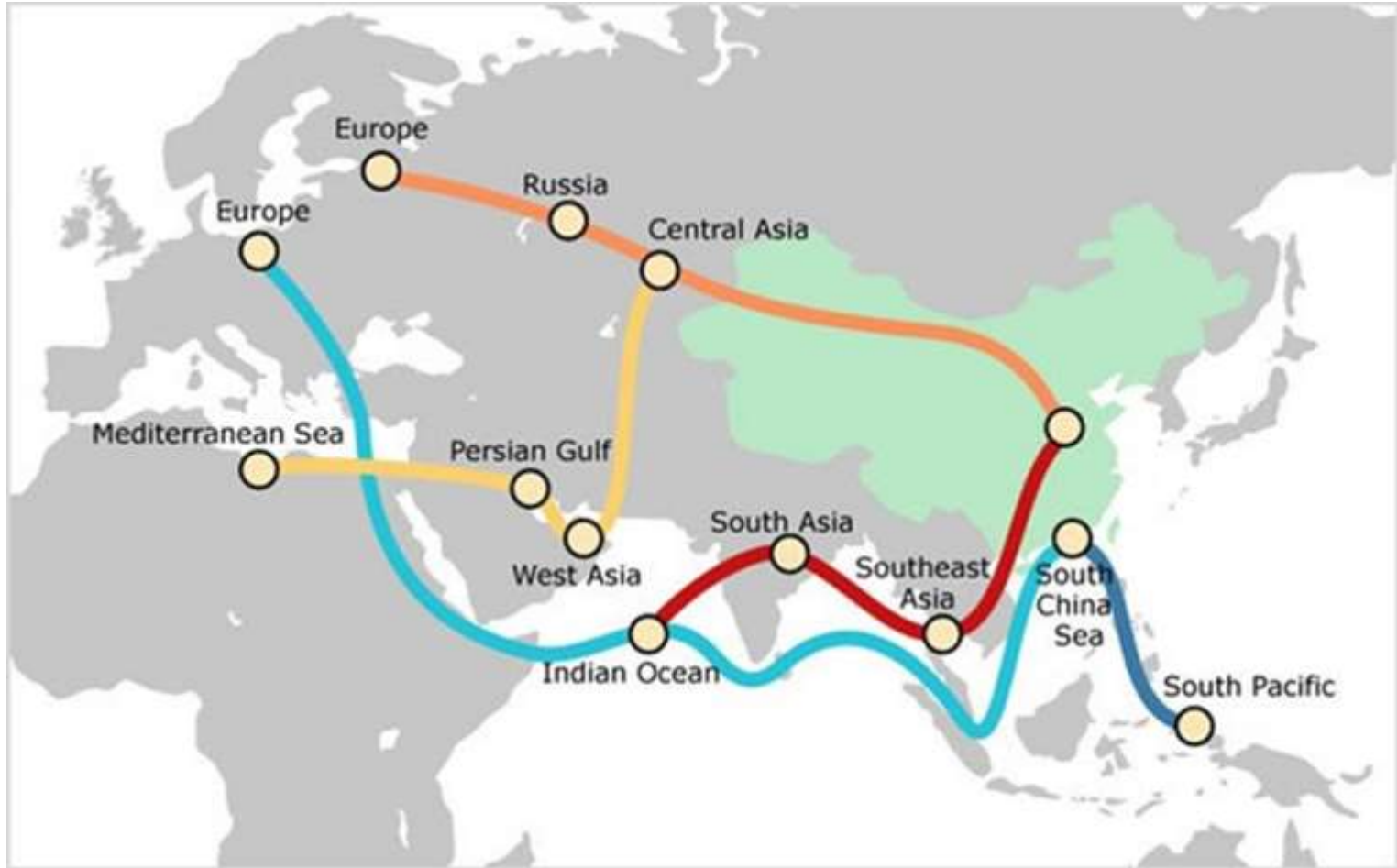
Made In China 2025 & Internet Plus

- Improving **Manufacturing** Practices

Social Reform

AIIB

OBOR



Source: CBBC

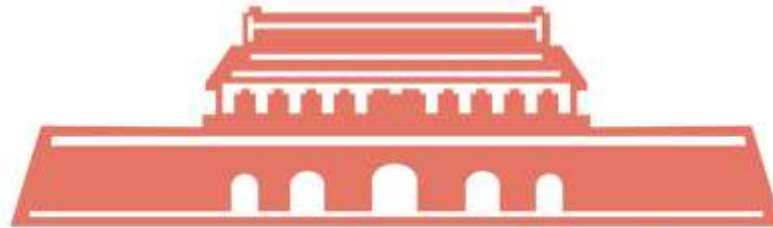
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OBOR In Brief

- Xi Jinping is heavily involved with both the OBOR initiative and the 13th plan.
- **Western Regions** that are less developed will be targeted
- Open up **new markets** and **customers** for greater trade.
- Additionally closer economic ties and **prosperity** may help improve regional stability

Made In China 2015



The Chinese government gives manufacturing a makeover

Made In China 2015

The Rationale Behind It:

Changing Global Manufacturing structure: The international manufacturing structure is being reshaped with the slowdown in Europe and the US. This is an opportunity for China to step into high-end manufacturing and further expand in the international market.



The New Normal: Labor costs in China are climbing, there are new challenges with regard to resources and competition from Southeast Asian countries that are intensifying their focus on manufacturing. In order to give the economy a new push, China is upgrading manufacturing.

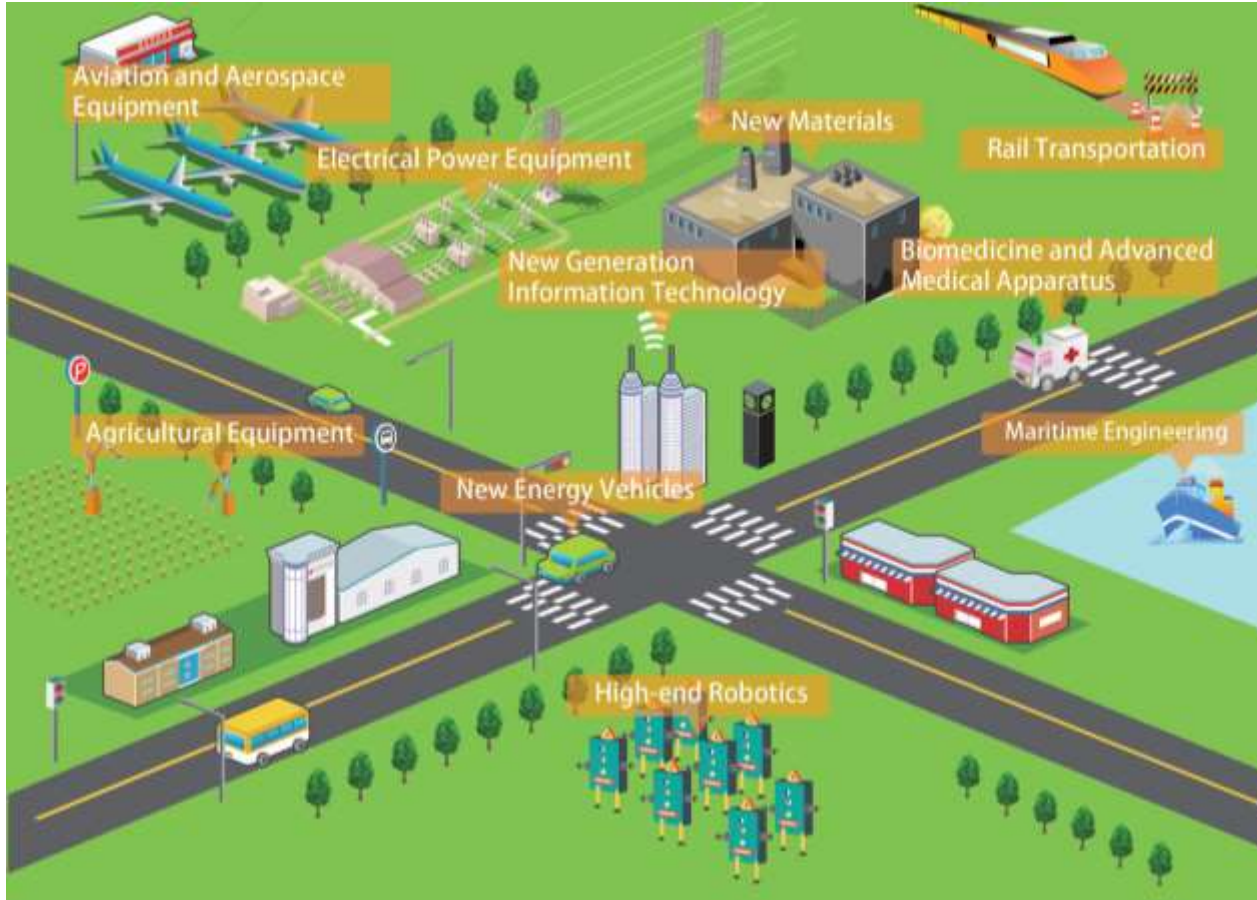


Gap: China still lags behind the developed world. Although China's manufacturing sector is the largest in the world, the country is still a weak manufacturer in terms of core technology and innovation. Made in China 2025 will try to transform China from the world's largest manufacturer to the strongest manufacturer.



Source: CKGSB

Sectors Covered



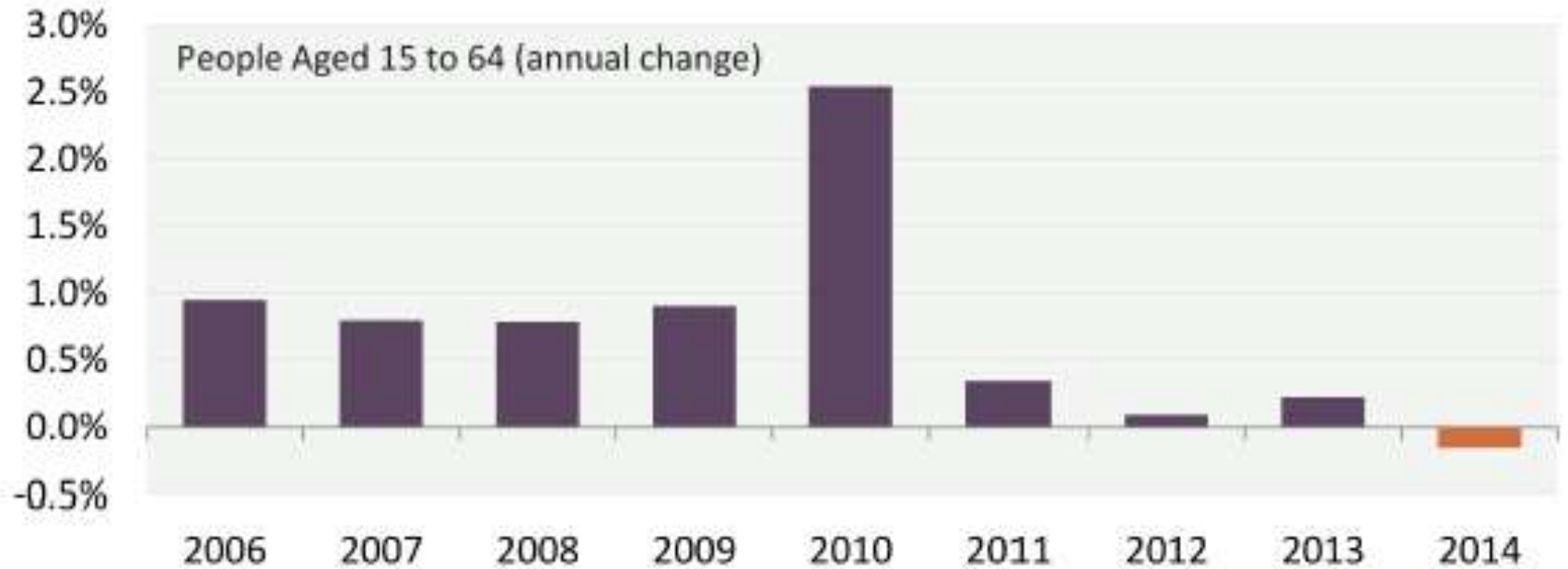
Source: CKGSB

Social Reforms

- Social welfare and healthcare reforms
 - **Lower high levels** of saving
- One child policy abolished
 - **90 million couples** eligible to have a second child
- Focus on environmental policy and green energy
 - **Reduce pollution**
- Development **for** the people, **by** the people & **shared** by the population

Shrinking Labor Force

Labor Force Declines First Time in at Least Two Decades

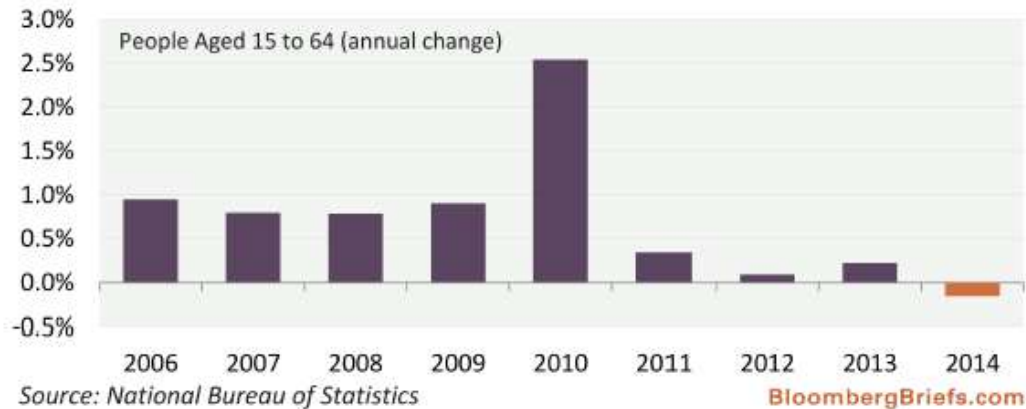


Source: National Bureau of Statistics

BloombergBriefs.com

Shrinking Labor Force

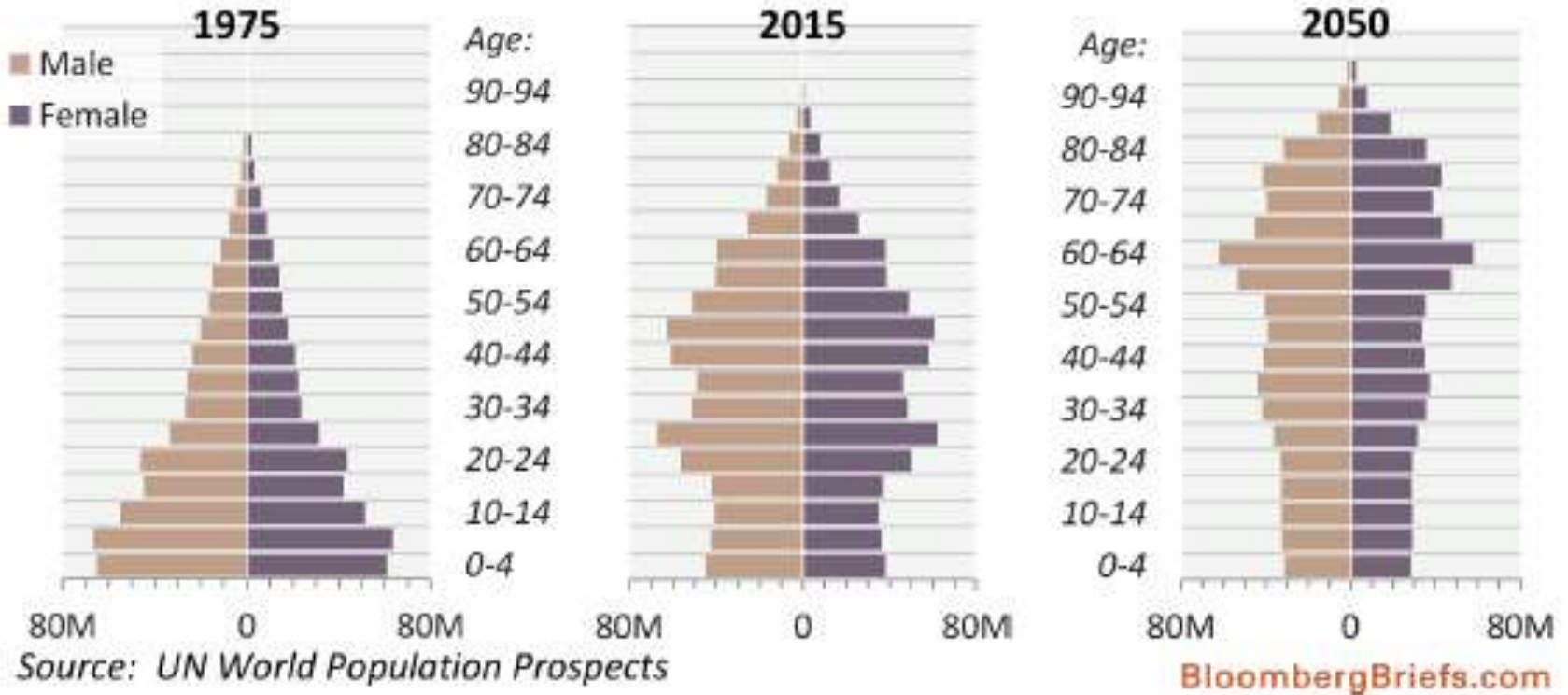
Labor Force Declines First Time in at Least Two Decades



- Receding pool to draw talent from
- Drives up wages and costs to employers
- Factories relocate to other lower cost territories

Ageing Population

Graying China



Anti - Corruption

- President Xi Jinping has lead a massive **anti-corruption** campaign
- Officials from **every province** have been arrested
- Possible factor in why **liberal reforms** not yet been implemented
- Foreign companies need to **align** and proceed carefully



The Opportunities

FYP Sector Agenda

FYP will create opportunities in ...

Infrastructure	Professional Services
High-End Manufacturing	Environmentally Friendly Industries
Information Technology	Agricultural Technology
Retail	Education

Business Risk Factors

Risk Remains

Each business's risk can be broken down into the below areas:

Market	Human	Economic	Management	Business	Legal
<ul style="list-style-type: none">• Competition• Innovations• Price	<ul style="list-style-type: none">• Stealing• Fraud• Unions	<ul style="list-style-type: none">• Policy• Protectionism• Investigations	<ul style="list-style-type: none">• Incompetence• Nepotism	<ul style="list-style-type: none">• Internal Controls• Suppliers• Logistics	<ul style="list-style-type: none">• Ownership• Business Scope• Asset Ownership• IP

Contradictions

FYP Objectives	FYP Contradictions
Continues trend of existing policy	No clarity on the operating environment for multinationals and FIEs.
Open to Foreign Business and Investment	Onerous security laws and a renewed devotion to bolstering domestic industry
Innovation and entrepreneurship are meant to be the key to future growth	Information control and ideological rhetoric are ramping up.

China's FYP SWOT

<p><u>Strengths:</u></p> <ul style="list-style-type: none">- Strong leadership- Still GDP Growth at 6.5%- Infrastructure- Size of Market Potential & consumer growth- Low debt / high savings for individuals- Competitive productivity- Cost base lower for blue collar and non-sr mgt- Can obtain tax concessions in some industries- Local Government incentives.- TAX rebates still on some exports	<p><u>Weaknesses:</u></p> <ul style="list-style-type: none">- Unknown or regional inflation / deflation risk- Lack of innovation, / “out of box thinking”- Shortage of good management- High and increasing salary demands- Reducing margins – revenue pressure / cost pressure- Changing regulations / lack of clarity / Govt- Not a level playing field- Shortage of available financing in China- Lack of transparency / state secrets law
<p><u>Opportunities:</u></p> <ul style="list-style-type: none">- Chinese overseas expansion and OBOR- Environmental protection / saving- Technology / innovations / upstream- Increasing domestic consumption- Regional cities growth potential- Brands, brand and more brands- Healthcare & education- Smart Cities- Shanghai and other FTZs	<p><u>Threats:</u></p> <ul style="list-style-type: none">- Competition (e.g. Vietnam, USA, Indonesia)- Have and have not gap- Medical system coverage- Corruption- Increased protectionism- Environmental factors

In Sum

- Still sectors with promising growth although **market access** a primary concern
- Packages **existing policies** however **does not provide any guarantees** for FIEs
- Invaluable for MNCs **aligning with China's policy** direction
- Greater **local competition** and **protectionism**
- **Contradictions** to outsiders but make sense internally
- Fundamental to realising the **“China Dream”**

Any Questions ...

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