

## “One year into China’s 14<sup>th</sup> Five-Year-Plan”

Assessing implementation progress across key indicators of China’s ten top-level strategic objectives

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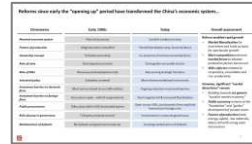
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## Profile

- CMG is a young, agile and partnership-led **European boutique consultancy** with specialization in applied China research and analysis
- CMG serves European **SMEs, MNCs, the public sector as well as investors**
- It focuses on China's **policy, market and China-related international affairs**
- CMG operates with offices in **Beijing and Zurich**

## Key expertise areas



### Economic policies and market reforms

- SOE reform, market access, SSSR, tax system



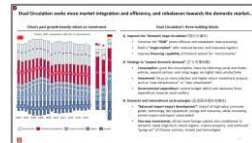
### Financial system, market and policies

- Financial opening-up, Green Finance, FinTech,



### Industrial, S&T and talent policies

- Guidance funds, MIC25, int. S&T cooperation



### Trade and foreign (economic) policies

- RCEP/CPTPP, trade promotion, Belt-and-Road



### Social and environmental policies

- Pension reform, Hukou reform, carbon trading

## Our approach

**Fact-based, rigorous and in-depth research and analysis**

**Interdisciplinary and cross-cultural team**

**On-the-ground presence and engagement with Chinese experts**

**China competency at the core: language, economic/political system, historic context**



# Agenda

1

**14th Five-Year-Plan and overall status of implementation**

2

Detailed assessment of implementation progress across 10 strategic objectives

3

Strategic observations for foreign business

**Recap: the “Two Sessions” endorsed China’s 14<sup>th</sup> Five-Year-Plan on March 11<sup>th</sup> 2021**



# The 14<sup>th</sup> Five-Year-Plan covers China's social and economic development comprehensively in 19 chapters

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Economic policy

Social policy

Security/governance

FYP goals/governance

# In the meantime, a large number of ministerial/functional and local Five-Year-Plans have been issued

General FYPs	NPC	National level	14th FYPs for National Economic and Social Dev. and Long-Range Objectives 2035	Provinces (31 of 34)																			
				Beijing	Gansu	Guizhou	Hebei	Heilongjiang	Jiangsu	Ningxia	Shaanxi	Shanghai	Xinjiang	Chongqing	Guangdong	Hainan	Hubei	Inner Mong.	Jiangxi	Qinghai	Shandong	Tianjin	Yunnan
				Anhui	Fujian	Guangxi	Henan	Hunan	Jilin	Liaoning	Sichuan	Shanxi	Tibet	Zhejiang									
Functional FYPs	Economic policies		Social policies		S&T, education and culture		Green & regional development		Transport & infrastructure														
State Council	14th FYP for Modernize Market Supervision		14th FYP for National Medical Insurance		14th FYP for Tourism Industry Development		14th FYP for Promoting Modernization of Agriculture and Rural Areas		14th FYP for Urban and Rural Community Service System Construction														
	14th FYP for Digital Economy Development		14th FYP for Protection and Development of Disabled Persons		14th FYP for Cultural Relics Protection and Scientific and Technological Innovation		14th FYP for Employment Promotion		14th FYP for Modern Comprehensive Traffic and Transportation System Dev.														
	14th FYP for Protection and Utilization of National Intellectual Property		14th FYP for Development of Eldercare		14th FYP for Comprehensive Work Plan for Energy Conservation & Emission Reduction																		
NDRC	14th FYP for Circular Economy Dev.		14th FYP for Addressing the Population Aging Project and Nursery Construction		14th FYP for Art Creation		14th FYP for Revitalization and Development of Special Areas		14th FYP for Promoting National Governments' Informatization														
	14th FYP for Constructing a Modern Circulation System		14th FYP for Constructing a High-Quality and High-Efficiency Medical and Hygienic Service System		14th FYP for Strong Country in Education		14th FYP for Green Production		14th FYP for Public Service														
	14th FYP for Price Mechanism Reform				14th FYP for Making up for Shortcoming of National Fitness Facilities		14th FYP for Water-saving Society																
Ministries & agencies	Ministry of Industry and IT		Ministry of Human Resources and Social Security		Ministry of Education		Ministry of Agriculture and Rural Affairs		Ministry of Transport														
	14th FYP for Deeply Integrated Dev. of Informatization and Industrialization		14th FYP for Dev. of HR and Social Security		14th FY Action Plan for Dev. and Improvement of Preschool Education		14th FYP for National Scientific and Technological Dev. Agriculture and Rural Areas		14th FYP for Green Transportation Dev.														
	14th FYP for Green Dev. of the Industry		14th FYP for Technical Education		14th FY Action Plan for Dev. and Improvement of Special Education		14th FYP for Green Development of National Agriculture		14th FYP for Integrated Transportation Service Development														
	14th FYP for Intelligent Manufacturing Dev.		14th FYP for Vocational Skills Training		14th FYP for Implementation of the promotion of education power				14th FYP for Traffic and Transportation Standardization Development														
	14th FYP for Promoting the Development of Small and Medium-Sized Enterprises		Ministry of Civil Affairs		Ministry of Culture & Tourism		Ministry of Ecology & Envmt.		Ministry of Housing and Urban-Rural Development														
	14th FYP Pharmaceutical Industry Development Plan		14th FYP for Social Organization Dev.		14th FYP for Culture and Tourism Dev.		14th FYP for Ecological and Environment Monitoring		14th FYP for Construction Industry Dev.														
	Ministry of Commerce		14th FYP for Civil Administration Informatization Development		General Admin. of Sport		14th FY Work Plan for "Waste Free Cities"		National Govt. Offices Admin.														
	14th FYP for High-Quality Development of Foreign Trade		National Health Commission		14th FYP for Constructing a Public Cultural Service System		14th FYP for Soil, Groundwater, and Rural Ecological Environmental Protection		14th FYP for Standardizing Organs' Affairs														
	14th FYP for Development of Utilizing Foreign Capital		14th FYP for Health Standardization Work		National Radio and TV Admin.		Ministry of Water Resources		Cyberspace Admin.														
	14th FYP for E-Commerce Development		14th FYP for National Clinical Specialty Capacity Building		14th FYP for Sports Development		14th FY Implementation Plan for Soil and Water Conservation		14th FYP for National Informatization														
					14th FYP for Development of Chinese (drama) TV series																		

# Close to one year of implementation, senior government officials are messaging positive progress to date

## Economic Growth Overall



**Jizhe Ning (宁吉喆)**

Director of National Bureau of Statistics

- “14<sup>th</sup> FYP had a good start in 2021, national economy is growing with healthiness and quality”
- “The domestic consumption and investment keep expanding, and the foreign trade is recovering”
- “Industrial structure being upgraded, consumption makes biggest contribution to growth”
- “Inbound and outbound investment increases stably”
- “Promotion of Green Production is accelerated, environmental quality keeps being improved”

## Science & Tech Innovation



**Zhigang Wang (王志刚)**

Minister of Science and Technology

- “China is on the right way of reaching 14<sup>th</sup> FYP’s targets of Science & Technology”
- “R&D investment keeps expanding”
- “Progress are made in fundamental research, tech innovation, research achievement transformation and industrialization”
- “Research institutions have autonomy to organize research activities and performance evaluation”
- “169 national high-tech pilot zones have become world-class incubators of high-tech companies”

## Environmental Governance



**Shouliang Sun (孙守亮)**

Director of General Office, MEE

- “Air quality in major urban areas and surface water quality is being improved”
- “Emissions is controlled as planned by 14<sup>th</sup> FYP; China is enthusiastic about reaching the target by 2025”
- “Working focus will be on green production, decontamination, eco-regulation, anti-nuclear radiation, prevention of environmental risk and building modern environmental governance system”

## Transportation



**Xiaopeng Li (李小鹏)**

Minister of Transport

- “Initial achievement is made to build a developed transport system as planned by 14<sup>th</sup> FYP”
- “Construction of key transportation projects in road, railway, shipping line and airway are in stable process”
- “Construction of international logistics supply chain network is accelerated”
- “Transportation of strategic materials is secured”
- “Transport construction projects in underdeveloped regions has brought effective benefits”

# Official data also suggests a good start, but high-value patents lagging, growth and reforestation non-optimal

Key indicators of the 14 <sup>th</sup> FYP		2020	2021	2025 OBJ	5-year CA OBJ	Progress by 2021
Economic Development	GDP Growth Rate	2.3%	8.1%	/	Maintain within reasonable range	
	Total Labor Productivity Growth	2.5%	8.7%	/	Grow faster than GDP	
	Urbanization Rate of Resident Population	63.8%	64.7%	65%	/	
Innovation	Social R&D Investment Growth	10.2%	14.2%	/	> 7%, grow faster than in 13 <sup>th</sup> FYP	
	High-value Patents Owned by Per 10k Population	6.3	7.5	12	/	
	Core Value Added in Digital Economy / GDP Growth in Value	7.8%	/	10%	/	/
People's Well-being	Per Capita Disposable Income Growth	2.1%	8.1%	/	Grow at the same rate with GDP	
	Surveyed Urban Unemployment Rate	5.2%	5.1%	/	<5.5%	
	Average Years of Labor's Educational Attainment	10.8	/	11.3	/	/
	Num of Licensed Doctors Per 1k Population	2.9	/	3.2	/	/
	Participation Rate of Basic Endowment Insurance	91%	96%	95%	/	
	Num of Nurseries for Infants (Age<3) Per 1k Population	1.8	/	4.5	/	/
	Average Life Expectancy	77.3	/	78.3	/	/
Green Ecology	Drop of Energy Intensity (%)	/	/	/	Cumulatively drop 13.5% in 5 years	/
	Drop of Carbon Intensity (%)	/	/	/	Cumulatively drop 18% in 5 years	/
	% of Days with Good Air Quality in Urban Area	87%	87.5%	87.5%	/	
	% of Surface Water Quality Meet Level III Standard	83.4%	84.9%	85%	/	
	Forest Coverage Rate	23.2%	23.57%	24.1%	/	
Security	Grain Production Capacity (In 100m Tons)	6.69	6.83	>6.5	/	
	Energy Production Capacity (In 100m Tons Coal)	/	/	>46	/	/





# Top-level goals for 2<sup>nd</sup> year of 14<sup>th</sup> FYP implementation as recently released from the “Two Sessions”

## Key overarching goals this year



GDP growth around 5.5%



CPI increases around 3%



More than 11 million new jobs in urban areas



Surveyed urban unemployment rate around 5.5%



Government budget deficit 2.8% of GDP



Grain production remains above 650 billion kg

### Targets in 2022 are set moderately considering possible challenges:

- Compared to 2021, GDP growth target reduces by 2.6%
- 2022 CPI increase sets at the highest in 10 years (2<sup>nd</sup> high 2.9% in 2019)
- New jobs in urban areas target is set at the lowest since recent 10 years
- Surveyed urban unemployment rate target increases by 0.4%
- Government budget deficit target declines by 0.4%





















## Key tasks in 16 fields as presented by Premier Li Keqiang

1. Finance: central to local government transfer increases by ~ **€ 219 billion**, in total ~ € 1.4 trillion
2. Government investment: **€ 533 billion** local government special bonds (**highest since first release**)
3. Tax reduction: annual tax rebate estimated at ~ **€ 365 billion**
4. Employment: ~ **€ 14.5 billion** unemployment insurance fund to support job stabilization and training
5. Government services: services available across provinces, realize electric ID and license recognition
6. Consumption: continue NEV consumption support, introduce green home appliances in rural areas
7. Innovation: implement **ten-year plan for basic research**, and **three-year plan for S&T system reform**
8. Rural revitalization: support poverty alleviated areas' local industry, initiate **Rural Construction Plan**
9. Open-up economy: promote negotiation and signing of **high-standard FTAs** with more regions
10. Environmental protection: enhance energy- and water-saving, waste recycling and other policies
11. Education: continue to **reduce the burden of education** in the compulsory stage
12. Medical insurance: per capita **governmental subsidy** for resident medical insurance and basic public health services increase by € 4.38 and € 0.73 respectively
13. Social security: develop supporting measures for three-children policy & **inclusive childcare services**
14. Housing: explore new development models, accelerate **long-term rental market** development, promote **affordable housing** construction
15. Sports and culture: building more sports facilities close to people's everyday lives
16. Hong Kong, Macao and Taiwan: support Hong Kong and Macao to develop their economy and improve people's livelihood, and **resolutely oppose "Taiwan independence"**

# Agenda

- 1 14th Five-Year-Plan and overall status of implementation
- 2 Detailed assessment of implementation progress across 10 strategic objectives**
- 3 Strategic observations for foreign business

# 10 strategic objectives to advance development, address reform challenges and achieve more “securitization”

Top-10 strategic policy objectives	Progress	High-level implication for FIEs
 <b>“Dual Circulation”</b> : build a domestic demand system		Leverage business environment improvements
 <b>Reform the socialist market economy and address systemic risks</b>		Analyze regulatory risks and diverging regulatory concepts
 <b>Decarbonize economy and work towards carbon peak by 2030</b>		Use China’s incentives to improve local/global carbon footprint
 <b>“Common prosperity”</b> : broaden middle class and social fairness		External communication, branding and consumer intelligence
 <b>Strengthen social security and improve China’s welfare</b>		Tap growth (esp. insurance) and investment opportunities
 <b>Data as a factor of production – protect and utilize data</b>		Ensure compliance and explore opportunities for data analytics
 <b>Strengthen supply chain security and reduce foreign dependence</b>		Review level of localization and strengthen innovativeness in China
 <b>Strengthen basic research, innovation value chain and talents</b>		Explore to effectively utilize China’s innovation resources
 <b>Shape favorable ext. environment and reform global governance</b>		Monitor geopolitical risks, leverage regional economic integration
 <b>Protect people’s health in face of Covid-19 pandemic</b>		Consciously invest in HQ-China subsidiary interaction

# Dual Circulation: consumption crucial in economic recovery so far, while investment rather as mid-term lever

## Strategic objective

*Put focus on building a domestic demand system*

## Key policy measures

## Observations on implementation to date

### Single market

- Introduce rules and practical experience from mature international single markets; implement in different regions common competition standard, regulations, policies, and build a single logistics system
- Ensure regional free mobility of goods and factors, reduce price gap
- Reduce local protection, market monopoly and segmentation



- In Dec 2021, the Central Commission for Comprehensively Deepening Reforms issued suggestion for building single market, emphasizing equality, efficiency and combining market function with government's guidance,
- In Feb 2022, first guide published for single electricity market

### Domestic Consumption

- Exploration of new-type consumption, expansion in service sector, promoting consumption in digitalization and innovation
- Increase disposable income and optimize consumption structure—esp. keep housing expenditure healthy
- Raise consumption frequency—set mandatory retirement of long-used products, upgrade recycling system of waste products
- Improve duty-free system and release potential of rural areas



- In 2021, consumption recovered to pre-pandemic level—total sales of consumer goods had a CAGR of 3.5% since 2019, and consumption constituted 65.4% of economic growth
- Consumption in smart products and green products rapidly increased—key growing sectors incl. smart home, EV
- Consumption structure becoming healthy—housing expenditure made up of 23.4% of residents' average spending

### Domestic Investment

- Policies support priority investment in “new infrastructure, new urbanization, strategic industrial projects”, incl. next-gen IT, improved logistics, modern transport network and efficient electricity network
- Guarantee investment in welfare-related areas incl. public security, public health, environmental protection and municipal engineering
- Improve the long-term mechanism for introducing projects to private capital, remove private investment's entrance barrier
- Encourage private capital to invest in innovative sectors incl. circuit, biopharma, AI, high-end manufacturing and green industries
- Accelerate the regulation & promotion of PPP model and REITS



- Public investment in 2021 mainly into social welfare and upgrade of urbanization and housing
- Compared with 2020, 2021 domestic investment composition shifting to priority sectors: 13.5% growth in manufacturing, 17.1% in high-tech sectors, merely 0.4% in infrastructure
- Direct public investment to mobilize private investment accounts only for ~5% of total investment in fixed assets
- Since 2012, ~60% of investment in fixed assets from private (in 2021, ~56%, recovering from pandemic), rest from SOEs
- In 2021, private capital's participation in PPP and REITS with wide policy support; 403 PPP projects and REITS pilots launched

### Foreign Inbound Investment

- Make greater efforts to attract and utilize FDI and gradually open market of telecom, internet, education, culture and medical care to foreign players
- MCNs allowed to set R&D centers and join national S&T projects



- Utilized value of foreign investment in 2021 broke the record, increasing by 14.9% from 2020, with high-tech sectors growing 17.1%, showing improvement of investment quality
- Negative list for foreign investment is shortened for the 5<sup>th</sup> consecutive year



# Socialist market economy: market governance and SOE reforms so far in focus of implementation

## Strategic objective

**Reform the socialist market economy**

## Key policy measures

## Observations on implementation to date

### Market-based allocation of production factors

- Labor: remove barriers between urban and rural areas
- Hukou: relax select restrictions on household registration
- Land: more freedom in transferring rural land (planned)
- Capital: enhance financing function of multi-level capital market



- Hukou liberalization in parts of the second-tier cities already underway
- Focus more on urban-rural coordination development

### Anti-monopoly and «unorderly capital expansion»

- The 14th FYP is a step change as it first proposed to prevent the disorderly expansion of capital (防止资本无序扩张)
- Strengthen foundation of competition policy including the fair competition review system



- Stronger regulation for platform economy, real estate, education industries with anti-monopoly fine, cybersecurity review, suspension of IPOs
- Policy focus shifting to adhering to the principle of underlining regulation and development

### SOEs

- The 13<sup>th</sup> FYP states to improve a “modern enterprise system” while the 14<sup>th</sup> tries to build one «with Chinese characteristics”
- More emphasis on introducing mixed ownership to SOEs
- Continue reforms of the state-owned sector



- 3-year action plan for SOE reform at 70% formal progress
- Foreign shareholding SOE enterprises exceed 6000
- Focus on higher efficiency and implementing strategic goals (technology, food security)

### Financial system reforms

- Registration-based listing mechanism, normalized delisting
- Serving/financing the real economy vs. mitigating risks
- Improve corporate governance of financial institutions and strengthen supervision of shareholder equity and transactions



- Full implementation of the registration-based IPO system stepping up
- Trading kicks off on the new Beijing Stock Exchange
- Policy motives towards financial opening-up

### Corporate social credit system (CSCS)

- Promote legislation for the CSCS implementation
- More emphasis on promoting credit commitment system
- Cultivate internationally competitive corporate credit reporting agencies and credit rating agencies



- Credit commitment system effectively used in certain government approval items
- Legal system improved: National Basic Catalogue of Public Credit Information & National Basic List of Disciplinary Measures for Default



# Decarbonization: key achievements are made in energy and carbon intensity control as well as carbon sink

Strategic objective	Key policy measures	Observations on implementation to date	
<p style="text-align: center;"><b>Work towards carbon peaking by 2030</b></p>	<p><b>Energy and carbon consumption control</b></p>	<ul style="list-style-type: none"> <li>Control over quantity &amp; intensity of energy consumption, substitute coal-based power consumption with renewable energy, increase share of non-fossil fuels in energy to ~25%</li> <li>Depress the carbon intensity, lower carbon emissions per unit of GDP by over 65% from the 2005 level</li> </ul>	<ul style="list-style-type: none"> <li>In 2021, coal use accounted for 56% of total energy consumption, a 0.9% drop from 2020, with non-fossil fuels growing 1.2% to make up of 25.5% of total energy use</li> <li>Carbon intensity is on downward path, emissions per GDP unit (10k RMB) in 2021 fell by 3.8% from 2020</li> </ul>
	<p><b>Low-carbon industry system</b></p>	<ul style="list-style-type: none"> <li>Optimize industrial structure, limit existing high emitters and develop strategic new industries with low carbon emission</li> <li>Accelerate the green transformation of traditional industries</li> <li>Construct green supply chain, encourage using green design and material, and incubate green service providers</li> </ul>	<ul style="list-style-type: none"> <li>MIIT set emission standards for diesel vehicle, banned production &amp; sales of non-standard ones, promoting EV</li> <li>MIIT released a list of green manufacturers; 662 green factories and 52 green industrial zones have been built</li> <li>Feb 2022, MIIT issued 17 guides to promote “greening” of high energy-consuming industries incl. oil, steel and chemical</li> </ul>
	<p><b>Ecological carbon sink</b></p>	<ul style="list-style-type: none"> <li>Strictly maintain the red line of ecological protection, increase the forest stock volume by 6 billion cubic meters from the 2005 level, solidify ecosystem’s ability to do carbon fixation</li> <li>Implement ecological protection and restoration projects, enhance ecosystem’s carbon sink capacity</li> </ul>	<ul style="list-style-type: none"> <li>By Mar 2021, forest coverage of China reached 24%, and the number is expected to increase slightly and steadily</li> <li>China issued Wetland Production Law in Dec 2021, marking the formal transition from “saving and protection” to “high-quality development”</li> </ul>
	<p><b>Green innovation</b></p>	<ul style="list-style-type: none"> <li>Strengthen fundamental research, promote development of low-carbon technology and to make breakthroughs</li> <li>Build a market-oriented green innovation mechanism</li> <li>Compared to 13<sup>th</sup>, 14<sup>th</sup> FYP discusses green innovation issue from perspective of institutional guarantee of innovation</li> </ul>	<ul style="list-style-type: none"> <li>Chinese Academy of Science (CAS) is exploring new tech in clean usage of fossil fuels, scalable application of hydrogen power and stable storage of high-intensity energy</li> <li>First national trading center of green tech established in Zhejiang, helping green tech firms to generate income</li> </ul>
	<p><b>Carbon trading</b></p>	<ul style="list-style-type: none"> <li>Take advantage of national emissions trading market, improve the supporting infrastructure and steadily broaden the trading to more industrial sectors</li> <li>13<sup>th</sup> FYP addressed preparation and experiment of ETS, while 14<sup>th</sup> aims at market maturity and extension</li> </ul>	<ul style="list-style-type: none"> <li>Emissions trading market running smoothly since launch in July; by 2021 end, national market of Carbon Emission Allowance has volume of 165m tons and turnover of 6.9b RMB</li> <li>ETS will be open to more sectors and investors, and explore the interaction with other trading market</li> </ul>



# Common prosperity: Zhejiang has started piloting multiple measures for common prosperity since June 2021

Strategic objective	Key policy measures	Observations on implementation to date	
<p><b>Build common prosperity- the essential ideal of socialism</b></p>	<p><b>Expand the middle class</b></p>	<ul style="list-style-type: none"> <li>• Zhejiang just issued the draft action plan for expanding the middle class</li> <li>• In 2022, Zhejiang plans to make specific incentive mechanisms for the key areas and target groups</li> </ul>	
	<p><b>Income distribution reform</b></p>	<ul style="list-style-type: none"> <li>• Different support/incentive mechanisms are planned for different target groups respectively. E.g., improved access to trainings for skilled workers and optimized business environment for SME owners</li> <li>• Moreover, China will introduce market-based skill evaluation system to decide wages</li> </ul>	<ul style="list-style-type: none"> <li>• Zhejiang plans to pilot the income distribution reform in 2022 including expanding the middle class and transfer payment reform</li> </ul>
	<p><b>Equalize offering of public services</b></p>	<ul style="list-style-type: none"> <li>• Enlarge different income sources such as land, knowledge and data and increase payment for labor force</li> <li>• Reform re-distribution mechanism via transfer payment</li> </ul>	<ul style="list-style-type: none"> <li>• Zhejiang plans to integrate all regional medical insurance funds and promote digital medical services, to equalize the supply of public medical services</li> <li>• Zhejiang will provide 1.2 million affordable houses and renovate old communities for 190 thousand residents</li> </ul>
	<p><b>Green development</b></p>	<ul style="list-style-type: none"> <li>• Equalize the supply of basic public services among different regions via measures including digitalization</li> <li>• Minimize the urban-rural gap</li> <li>• Improve the living conditions for all people and ensure the supply of affordable houses</li> <li>• Strengthen the social security net and enhance transfer payment from wealthy areas to less advanced areas</li> </ul>	<ul style="list-style-type: none"> <li>• In Feb 2022, Zhejiang issued the implementation plan for carbon peak and neutrality</li> <li>• Zhejiang will reinforce grassroots force for farmland protection</li> </ul>



# Social policies: successful overall implementation on enhancing people's livelihood, though challenges remain

Strategic objective	Key policy measures	Observations on implementation to date	
<p><b>Improve quality of life for all citizens and enhance people's livelihood</b></p>	<p><b>Demographic changes / aging</b></p>	<ul style="list-style-type: none"> <li>• Delay legal retirement age with small-step adjustments</li> <li>• Develop silver economy, incl. suitable technologies and products for the elderly, health tourism, old-age nutrition supplements, etc.</li> <li>• Build a community- and home-based elderly care service network</li> <li>• Cultivate elderly nursing talents and expand old-age home facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Old-age homes expand by absolute number, but high vacancy rate (~50% empty beds), as most elderly still prefer home-care</li> <li>• Jiangsu and Shandong started pilot on retirement age extension in 2022</li> </ul>
	<p><b>Healthcare</b></p>	<ul style="list-style-type: none"> <li>• Implement Healthy China 2030, from ex-post treatment to prevention and fitness build-up, moving health checkpoint forward 健康关口前移</li> <li>• Reduce drug price with VBP, encourage local generic drug development</li> <li>• Deepen healthcare reform, expand high-quality healthcare services, develop a balanced resource distribution among different regions</li> </ul>	<ul style="list-style-type: none"> <li>• Chinese generic drugs take up &gt;95% of VBP selected products, replacing imported patent-off drugs</li> <li>• Drug registration shortens vastly, esp. innovate. drugs</li> <li>• Booming of online medical service industry, online hospital users increased by 11.4% in HY 2021</li> </ul>
	<p><b>Social security</b></p>	<ul style="list-style-type: none"> <li>• Transition towards centralized coordination of social security funds – Basic Pension from province- to national-level; BMI, Unemployment Insurance, and Work Injury Insurance from city- to provincial-level</li> <li>• Further develop commercial pension and commercial medical insurance</li> <li>• Raise Basic Pension benefit, relax conditions for flexible employment</li> </ul>	<ul style="list-style-type: none"> <li>• 14th FYP introduced “third pillar pension”, incl. saving pension and commercial pension: 1<sup>st</sup> pillar (state) and 2<sup>nd</sup> pillar (company) pensions are relatively mature, 3<sup>rd</sup> pillar (individual) started piloting</li> <li>• Basic Pension benefits keeps raising: 4.5% up in 2021</li> </ul>
	<p><b>Private education reform</b></p>	<ul style="list-style-type: none"> <li>• Emphasize the principle of education as public welfare, promote equalization of basic public education, increase school admission at all levels</li> <li>• Standardize and regulate private education, prohibit teachers from public schools to be employed simultaneously in private schools</li> <li>• Standardize and regulate off-campus tutoring industry</li> </ul>	<ul style="list-style-type: none"> <li>• High school admission rate in 2021 reached 91.4%, already close to the 2025 target at 92%</li> <li>• Drastic shrinking of off-campus tutoring industry, from 124k entities in 2021 to 9.7k (92%) in 2022; all k9 tutoring needs to be re-registered as nonprofit</li> </ul>
	<p><b>Poverty alleviation / rural revitalization</b></p>	<ul style="list-style-type: none"> <li>• Avoid backsliding of poverty alleviation achievements</li> <li>• Build high-standard farmland, develop modern mechanized agriculture</li> <li>• Strengthen rural logistics, incl. cold chain facilities for agricultural products, advance rural infrastructure with road and internet improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Built 70k km<sup>2</sup> high-standard farmland in 2021, exceeding annual targets by 5.5%</li> <li>• With nearby job allocation instead of only aid, &gt;75% low-income people not expected to return to poverty</li> </ul>





# Data utilization: implementation so far focused on devising the regulatory framework and data protection

## Strategic objective

## Key policy measures

## Observations on implementation to date

<p><i>Utilize data as a production factor</i></p>	<p><b>Cybersecurity</b></p> <ul style="list-style-type: none"> <li>14<sup>th</sup> FYP plans to complete laws and regulations for cybersecurity and enhance protection of key data resources, network and IT system including critical information infrastructure, while 13<sup>th</sup> FYP was merely pre-planning them</li> </ul>	<ul style="list-style-type: none"> <li>Both the Data Security Law and the Personal Information Protection Law were issued in 2021</li> <li>More than 10 implementation regulations for the aforementioned laws also issued in 2021</li> </ul>
	<p><b>Regulate cross-border data transfer</b></p> <ul style="list-style-type: none"> <li>14<sup>th</sup> FYP has stipulated the completion of safety management measures for cross-border data transfer, which were not included in the 13<sup>th</sup> FYP</li> </ul>	<ul style="list-style-type: none"> <li>Draft definition of “Important Data” issued in 2022, for which cross-border transfer security assessment is required</li> <li>Draft measures for safety assessment for cross-border data transfer issued in 2021</li> </ul>
	<p><b>Platform economy</b></p> <ul style="list-style-type: none"> <li>With the fast expansion of platform economy, the 14<sup>th</sup> FYP starts to promote the healthy development of platform economy via enhancing anti-monopoly and limiting the unorderly capital expansion</li> </ul>	<ul style="list-style-type: none"> <li>In 2021, SAMR issued numerous administrative sanctions on platform operators e.g., Didi was punished for multiple JVs with car manufacturers</li> </ul>
	<p><b>Enable data trading</b></p> <ul style="list-style-type: none"> <li>14<sup>th</sup> FYP foresees a new focus on enabling data trading:           <ul style="list-style-type: none"> <li>Complete regulations for data trading market and support the making of pricing mechanisms</li> <li>Create the market ecosystem for data trading incl. data asset registration, dispute arbitration, etc.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Multiple local data trading centers including Beijing and Shanghai were set up in 2021 to handle issues including pricing and trading regulation</li> </ul>
	<p><b>Develop digital currency</b></p> <ul style="list-style-type: none"> <li>Develop digital currency as new means of finance supply-side reform</li> <li>Set up digital currency standards for safety, trading, device, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Digital RMB has been piloted by PBOC since Jan 2022</li> </ul>



# Supply chain security: fundamental measures being taken for autonomous and reliable local supply chain

## Strategic objective

## Key policy measures

## Observations on implementation to date

**Build an autonomous and reliable supply chain in China**

### Enhance existing supply chain advantages

- Build out existing supply chain strengths via researching new trends such as 5G, biotech, new materials, etc.
- Optimize the regional allocation of supply chains to transfer these traditional supply chains to less advanced areas in China, instead of to other Asian countries. It is the first time that China plans industry transferring from the supply chain security perspective



- MIIT in Jan 2022 just issued the guiding opinions for transferring certain industries to mid-western China and to the northeastern part
- In 2021, MOFCOM said that it would provide more financial support to “economic zones” in mid-western China for receiving transferred industries from the east

### Buy-local to promote Made in China

- For the first time, 14<sup>th</sup> FYP stipulates that public procurement should support domestic innovative products (政府采购政策支持创新产品和服务)



- MOF, together with MIIT in 2021, issued the standards for mandatory purchase of Made in China products in public procurement, covering a lot medical devices. (MIC products include those by MNCs)

### National treatment for MNCs in China

- 13<sup>th</sup> FYP only mentioned the negative list, whilst 14<sup>th</sup> FYP has emphasized two new changes:
  - Minimize the negative list for foreign investment
  - Enhance post-establishment national treatment for MNCs in China
- China believes that MNCs can contribute to China’s supply chain strategy, considering their role in international resources allocation



- In 2021, the negative lists for foreign investment and for foreign investment in free trade zones decreased by 6.1% and 10% respectively
- In 2021, MOF required all its local departments to conduct self-examination to ensure national treatment for MNCs in China in public procurement

### Supply chain cooperation along BRI

- 14<sup>th</sup> FYP says that China should deepen supply chain cooperation with BRI countries to increase its supply chain stability and security



- No specific new actions have been taken so far

### Research bottleneck technology

- Research China’s bottleneck technologies via Industrial Technology Re-innovation projects, which were firstly mentioned in 2019
- National Manufacturing Innovation Centers (NMIC) projects from 13<sup>th</sup> FYP will be continued



- MIIT built 4 new NMICs in 2021, e.g., 5G Med-high Frequency Components Innovation Center
- In Mar 2022, MIIT says it will continue Industrial Technology Re-innovation projects
- China is still dependent on imported chips, especially for auto chips in 2021



# S&T, education: China adopts a coordinated and pragmatic approach to R&D and talent cultivation

## Strategic objective

*Achieve breakthrough in S&T innovation and pragmatic talent cultivation*

## Key policy measures

## Observations on implementation to date

### Improve fundamental research

- Make the Ten-Year Action Plan for Basic Research 2021-2030 (to be published later in 2022) as the first national action guidelines for fundamental research
- Encourage the development of emerging, unpopular, and weak disciplines
- Increase expenditure on fundamental research to over 8% of total R&D



- In 2021, China's total R&D expenditure grew by 14.2% compared to 2020
- But the ratio of fundamental R&D expenditure in the total R&D expenditure was only 6.09% compared to the 6% in 2020

### Cultivate S&T talents

- Grant researchers more flexibility in research approach selection and budget management as well as greater share of benefits in public R&D institutions
- Cultivate technically skilled workers via promotion of vocational education in high school and college



- R&D budget management is streamlined, and direct expenditure within CNY 500k (exp. Equipment) no longer entails detailed report.
- 2021 enrolment in vocational high schools was 54% of that of general high schools

### Improve science evaluation system

- Promote outcome-oriented assessment system where peer evaluation plays a greater role
- Reduce the weigh of publications, professional titles, education background, and awards in science evaluation system.
- Publications on blacklisted journals will no longer be financially sponsored



- Chinese Academy of Sciences (CAS) and many universities published warning lists for academic journals to strengthen academic integrity and reform publication-oriented assessment system

### Pursue high-tech tech breakthroughs

- Pursue breakthroughs in tech frontier incl. AI, quantum tech, circuit, biotech with strategic S&T projects, supported by national lab network
- Build international S&T centers in Beijing, Shanghai and GBA; optimize national high-tech zones' function in innovation and industrialization
- Utilize industrial guidance fund to mobilize private capital for key S&T projects and strengthen support of stock exchanges for strategic tech firms



- 9 national labs added to a new total of 13
- International S&T centers in Beijing and Shenzhen launched leading talents introduction campaign
- 169 national high-tech zones 12% growth in 2021
- By 2021, 1988 industrial guidance funds nationwide, amplifying capital input in strategic S&T SMEs

### Encourage innovation by enterprises

- Provide subsidies and tax breaks for enterprises' R&D and purchase of important technological equipment
- Support innovative SMEs with fiscal support and more flexible financing mechanisms



- Tax reduction for enterprise R&D increased from 75-100%, exempting tax of CNY 330 billion
- Cultivated around 5000 national-level innovative SMEs, over half with R&D investment higher than CNY 10 billion (MIIT)



# External environment: China steadily advancing its interests abroad, but war in Ukraine strains relations

Strategic objective	Key policy measures	Observations on implementation to date	
<p><i>Shape a more favorable external environment</i></p>	<p><b>BRI</b></p>	<ul style="list-style-type: none"> <li>• Make the BRI the major platform for Chinese outbound cooperation, with a focus on high quality development</li> <li>• Promote “4-in-1 connection” of land, sea, sky and internet, with the basic framework of “6 corridors, 6 roads, multi-nation, multi-port”</li> <li>• Integrate domestic dev. in BRI plans, Fujian and Xinjiang as core areas</li> </ul>	<ul style="list-style-type: none"> <li>• In 2021, 7 more countries signed BRI cooperation, reaching 145 countries and 32 int. organization in total</li> <li>• China made four proposals in the construction of Sino-Africa Shared Community of Destiny for the New Era, announced nine projects in Africa</li> </ul>
	<p><b>Regional economic integration</b></p>	<ul style="list-style-type: none"> <li>• Expedite implementation of RCEP, incl. market opening commitments</li> <li>• Advance negotiation process of the trilateral FTA among China, Japan and South Korea, steadily advance the construction of FTAAP</li> <li>• Actively exploring to join CPTPP and sign greater number of high-standard FTAs and regional trade agreements</li> </ul>	<ul style="list-style-type: none"> <li>• RCEP entered into force in Jan. 2022, it’s viewed as China’s most important trade integration achievement</li> <li>• China has applied to join the CPTPP and DEPA, but application has likely more to do with posturing than real commitment to reforming its economic model</li> </ul>
	<p><b>China-Russia</b></p>	<ul style="list-style-type: none"> <li>• Xi Jinping “China and Russia unswervingly deepen back-to-back strategic cooperation, safeguard international justice shoulder to shoulder”</li> <li>• China recognizes Russia’s “legitimate” security interests in its periphery in the context of the Russian invasion of Ukraine and jointly criticizes “cold war mentality”, so far has refrained from criticizing Russian actions</li> </ul>	<ul style="list-style-type: none"> <li>• 2021 CN-Russia trade \$140 Bio, 2024 target \$200 Bio</li> <li>• Le Yucheng (MFA Vice-Minister) after Xi-Putin meeting in Feb. 2022 “China-Russia relationship has no cap” and ~20 cooperation contracts in trade and energy</li> <li>• However, Russia’s war on Ukraine is creating tensions</li> </ul>
	<p><b>China vs. the «West»</b></p>	<ul style="list-style-type: none"> <li>• China tries to prevent “non-Anglo-Saxon West” from further drifting away from its economic orbit by promising greater domestic openness</li> <li>• China seeks more stable Sino-US relations with collaboration esp. in low-carbon development, energy security and public health</li> <li>• China continues to seek market access and technology from Europe</li> </ul>	<ul style="list-style-type: none"> <li>• China's strong export sector continued amid pandemic</li> <li>• Most Western markets cling to China's supply chains</li> <li>• US-China relations stabilized in wake of virtual summit, esp. joint declaration during climate summit positive</li> <li>• Stalled CAI halted the mutually beneficial process</li> </ul>
	<p><b>UN &amp; multilateralism</b></p>	<ul style="list-style-type: none"> <li>• Align domestic agenda with UN 2030 Agenda for Sustainable Development, uphold the central role of UN in current international system</li> <li>• Reform foreign aid system, with a tilt toward the development world</li> <li>• Actively participate in international cooperation in pandemic control, and promote the building of Global Community of Health</li> </ul>	<ul style="list-style-type: none"> <li>• As the host of 2022 BRICS summit, China makes sure its multilateral summits are held smoothly</li> <li>• China makes its Covid-19 vaccine a global public good, top 4 receivers are Indonesia (255 Mio), Iran (114 Mio), Pakistan (111 Mio) and Brazil (95 Mio)</li> </ul>



# Pandemic control: after long-lasting zero-covid policy, China is expected to loosen control measures

Strategic objective	Key policy measures	Observations on implementation to date
<p><i>Develop domestic vaccines, strict control of cases with higher CDC authority</i></p>	<p><b>Domestic vaccine development</b></p>	<ul style="list-style-type: none"> <li>• CoronaVac and Sinopharm vaccines account for almost half of the 10 Bio vaccine doses globally, 1.4 Bio went to 115 other countries</li> <li>• However, immunity wanes rapidly, and protection for older people is limited</li> </ul>
	<p><b>Foreign vaccine approval</b></p>	<ul style="list-style-type: none"> <li>• No written policy measures on the approval of foreign vaccines: foreign vaccine approval / import is completely not mentioned in all the related 14<sup>th</sup> FYPs</li> <li>• 14<sup>th</sup> FYP of Pharma Industry voiced China’s urgent need of mRNA vaccine, but nothing written on approval of foreign mRNA vaccines</li> </ul>
	<p><b>Inbound travel restrictions</b></p>	<ul style="list-style-type: none"> <li>• Restriction principle “non-essential, non-emergency, no travel”</li> <li>• Travelers with foreign vaccines can apply for Health Code, but quarantine with 14 days in hotel plus 7 days at home is mandatory</li> <li>• For those infected by Covid-19 before, need CT scan or X-ray, 3 times PCR test, 14d quarantine before travel, antibody IgM test, etc</li> </ul>
	<p><b>CDC reform</b></p>	<ul style="list-style-type: none"> <li>• National Bureau of Disease Control and Prevention established newly in May 2021, responsible for infectious disease control &amp; prevention, and public health supervision incl. public sanitation</li> <li>• The function, institution and formation structure of the new CDC defined in Feb. 2022, taking up part of NHC responsibilities</li> </ul>
	<p><b>Zero-covid policy</b></p>	<ul style="list-style-type: none"> <li>• Until Nov. 2021, NHC vice-minister Wu Liangyou and leading pandemic-control advisor Zhong Nanshan still publicly announced that China’s zero-covid policy “will last for a long time”</li> <li>• However, since 2022, China is exploring ways to loosen controls, w. experimental measures in selected cities as early as this summer</li> </ul>
		<ul style="list-style-type: none"> <li>• NMPA approved Pfizer Paxlovid pill in Feb. 2022, the first foreign anti-viral drug approved</li> <li>• Fosun Pharma, the first partner with Pfizer on vaccine, is yet to build domestic manufacturing facility, so China doesn’t import from Germany</li> </ul>
		<ul style="list-style-type: none"> <li>• Strict inbound travel restrictions effectively control outside infection, with limited CN cases</li> <li>• 445 flights in total canceled due to cases found at boarding, Schengen area has the highest (135). More cancelations expected in future</li> </ul>
		<ul style="list-style-type: none"> <li>• CDC is promoted to vice-minister level under NHC, with more independence and greater authority for faster public health response</li> <li>• Provincial governments’ CDC adjustments are expected as follow-up</li> </ul>
		<ul style="list-style-type: none"> <li>• China is at the 3<sup>rd</sup> stage of pandemic control strategy “dynamic clearing” – acc. to Liang Wannian (NHC Covid-19 group leader), the goal is not to blindly pursue "zero infection", but to obtain the greatest effect with least social cost</li> </ul>

# Agenda

- 1 14th Five-Year-Plan and overall status of implementation
- 2 Detailed assessment of implementation progress across 10 strategic objectives
- 3 Strategic observations for foreign business**

# Conclusions

## System:

- China develops its «socialist market economy» as a sui generis model
- Ideologically, China entered the post-1st centennial goal stage of «new development pattern»

## Policy:

- More marketization and opening-up – securitized with higher steering and control capacity as well as localization measures
- Rebalancing priorities of economic growth and social policy objectives
- Activist interventions to «fix» market issues (→ «visible hand» and «socialist values»)

## Five key strategic questions for foreign business:

- 1 *What are systemic or public policy interests influencing the framework conditions in your sector (e.g. VBP for pharma)?*
- 2 *What is your company's value creation approach from your China operations?*
  - *Use of protected IP, use of cost advantages, use of global resources, branding or sustained innovation?*
  - *How localized is your value-chain and offering in China and what is your international supply chain dependence?*
- 3 *What is the strategic proximity your firm should and must take towards Chinese partners (government, SOEs and POEs)?*
- 4 *Are you decentralized enough to take decisions effectively while remaining coherent at firm-level?*
- 5 *How well do you understand the political and socio-economic context to act effectively as a corporate citizen?*

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