

Press Release

October 2015

With the next Five-Year-Plan into China's next "new normal".

China's current economic approach has had its day. Slowed growth, environmental and socio-economic problems, stock market crashes and an increasingly demanding Chinese population require a new approach which is expected to be reflected in the upcoming 13th Five-Year-Plan. The Plan will set the course for China's next "new normal" as a high-income sustainable economy with a moderately prosperous society.

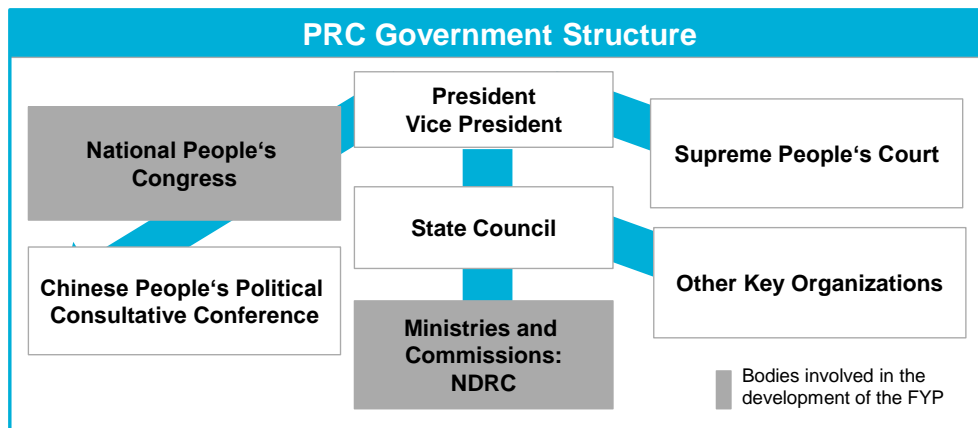
The first draft will be published this month. Many speculations have already been circulated. Focus is expected to be on the stabilization of China's sustainable economic growth, optimization of its industrial structure, increased promotion of innovation, strengthening local consumption, and enforcing the environment protection law while also narrowing the gap between rich and poor.

Role and impact of the Five Year Plan

The Five-Year-Plan is still one of the Chinese government's most powerful instruments to determine the country's main strategic directions and development goals. It serves as a guideline and roadmap throughout the five-year implementation period of the plan to all Chinese regulators. The Five-Year-Plans are regularly reviewed and ratified according to the highest level leadership philosophy. At the end of the period, target achievements are evaluated at all levels of the government bureaucracy. Right now, the current Five-Year-Plan is in the evaluation process. The new plan will chart the development from 2016 to 2020. The social and economic measures contained in the plan have a deep impact on the business landscape within China as well as for countries that do business with China. China's Five-Year-Plans can thus be understood as key indicators of the directions and changes in the government's development philosophy.

Drafting agents of the Five-Year-Plan

The central Five-Year-Plan is drafted by the National Development and Reform Commission (NDRC) in consultation with relevant stakeholders like experts from academia, industry and central government ministries. The final draft of the plan requires approval by China's central legislature, the National People's Congress.



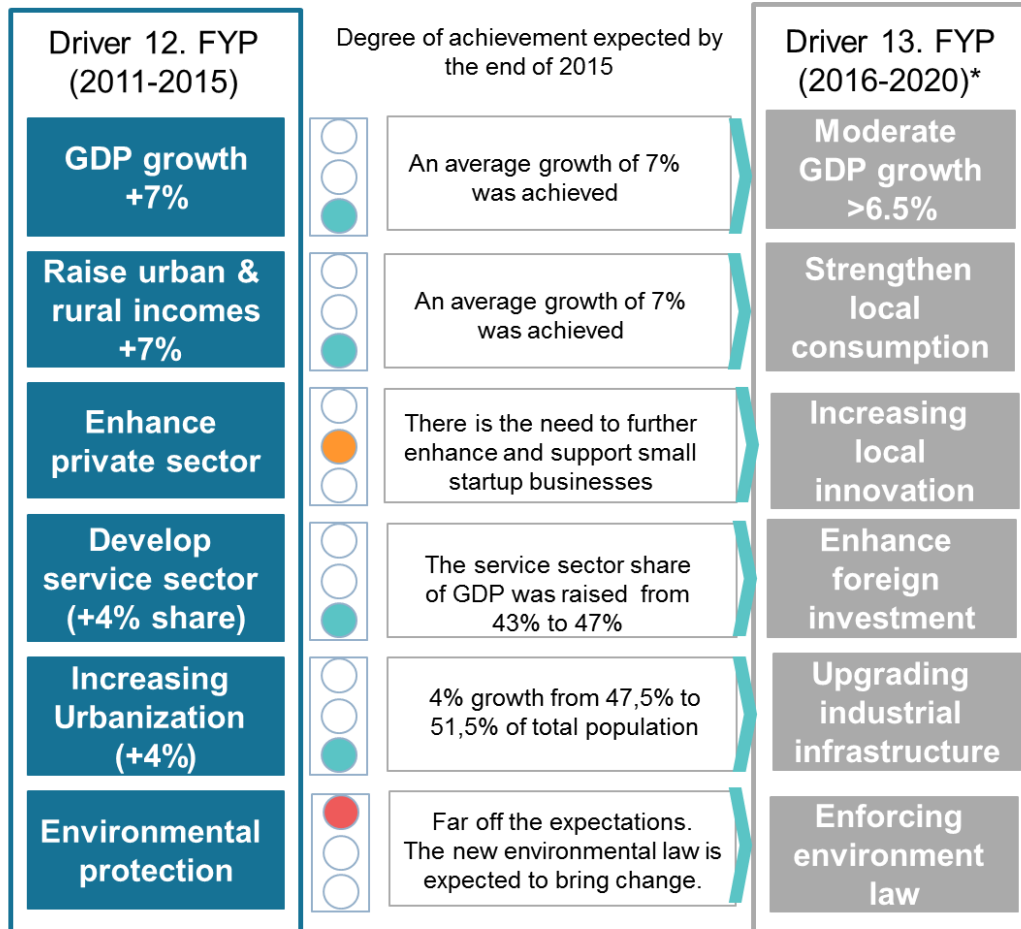
The central plan objectives will be cascaded down to all levels of the government: provincial, local, and district governments, along with industry regulators. The local Five-Year-Plans must correspond with the central government plan, but have more specific economic targets and goals that impact the local business environment and incentive programs.

Achievements of the 12th Five-Year-Plan period (2011 to 2015)

The 12th Five-Year-Plan had set its main target on transforming China from an export driven economy to one built upon local consumption growth. Part of this task was also to increase the share of the service sector in China's GDP to 47% in 2015 as well as increasing its urban population ratio to 51.5% in 2015. During the Plan period, China has already started to focus on throttling its double digit growth to a more stable single digit growth of 7%.

During the 12th Five-Year-Plan period, China has turned into the world's largest producer of many major industrial products and has become a serious international competitor in many industry sectors.

Some deep-seated problems like China's heavy environmental problem and its widening gap between rich and poor and urban and rural areas have not sufficiently been addressed in the current plan period. This will need to become a crucial objective of the 13th Five-Year-Plan, if China wants to achieve its goal to enter into its next 'new normal' stage and become an industrialized country by 2025.



Sources: China Government; D. Slevogt

*1st Draft expected in Oct. 2015

China enters its next new normal with the 13th Five-Year-Plan

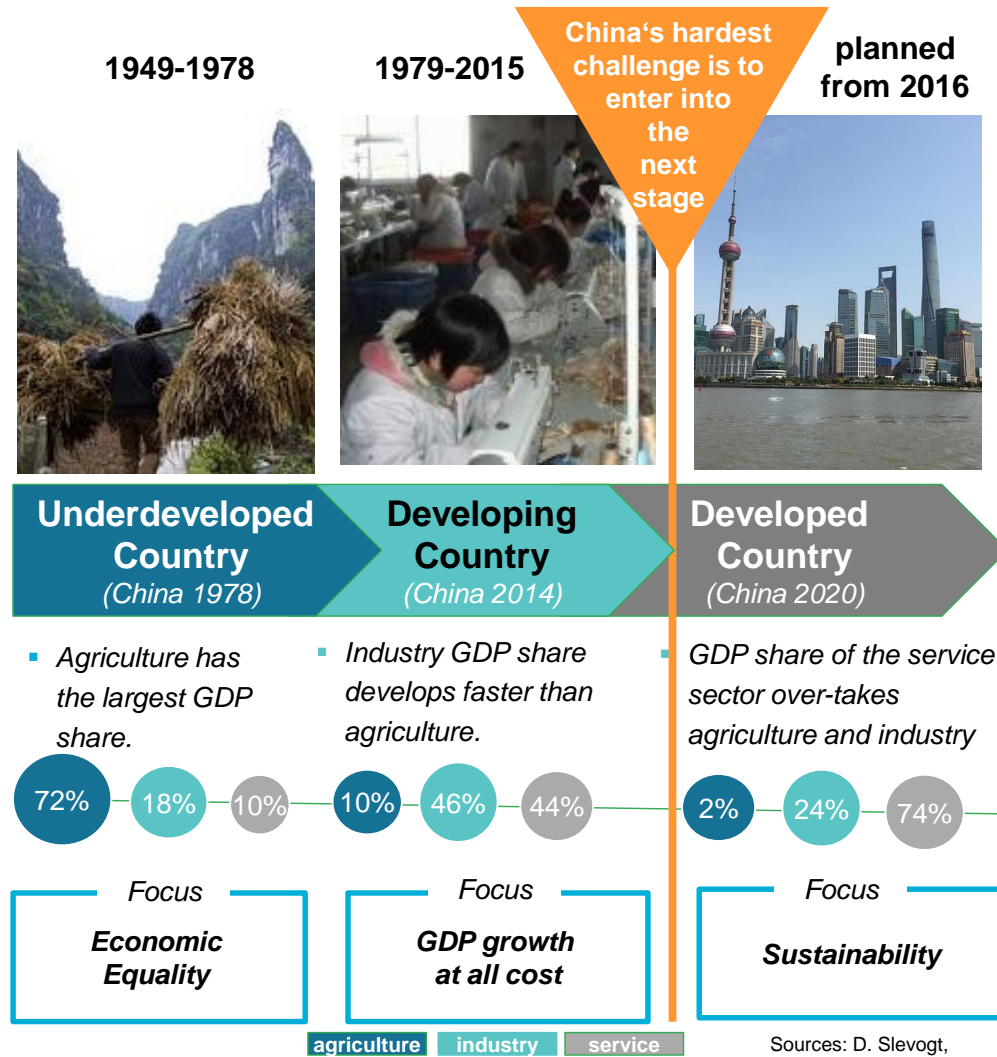
China's new Five-Year-Plan is expected to be laid out to enter China into its next "new normal" after China's current economic system with double digit growth at all cost has had its day.

The strategic goals set for the new Five-Year-Plan are expected to enable China to enter its transition to become a high-income sustainable economy with a moderately prosperous society in all aspects. The plan will mainly focus on the continued stabilization of China's economic growth and on boosting domestic consumption to achieve sustainable socio-economic development.

To achieve this goal, the plan will be aiming at a development pattern of higher product and production quality, efficiency and social equality. Boosting innovation and promoting strategic and emerging industries is also part of the way forward. Focus will, in addition, be on optimizing the industrial structure and a better balance between state and private sector industries. Enhancing the service sector and further increasing its share of the GDP is also a necessary prerequisite for China to enter into its next 'new normal'.

Of major concern to the central government and the 13th Five-Year-Plan's central drafting agents are three key issues: The **strengthening of China's energy efficiency**, the **implementation of its environmental protection efforts** and the **tackling of China's widening gap between the rich and the poor**, which it fell short to achieve in the last plan period. The Chinese central government will need to come up with new measures and empowerment to be able to guarantee the implementation of its central targets even at the lowest level of the governmental bodies.

The new FYP aims at entering China into its next 'New Normal'.



Opportunities for foreign companies

During the formulation of the Five Year Plan the Chinese general public, the local governments, economy experts and even foreign companies have a say in form of passing on comments to the central and local drafting agent, the NDRC. At this stage they are able to provide some sort of direction to the plan's objectives and actions taken from it.

Another field of opportunity for foreign companies is the way their local strategies and market activities may add to the local governments' success in meeting the targets of the Five-Year-Plan on a local basis. A first step for a foreign company is to access the plan's draft and identify the newly nominated focus industries and the strategic approach attached to them. It is often necessary to do this by carrying out an in-depth, informed research and analysis of the very comprehensive plan structure and complex content on central, local and industry basis. This is best done with the support of experienced consultants with expertise in the field of identifying the relevant objectives and actions taken as well as newly passed rules and regulations. New business opportunities and also possible threats to a specific industry for the new plan period can thus successfully be drawn from it.

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