



China's 12th Five-Year Plan marks a turning point from the country's previous emphasis on headline growth; China's leaders are now prioritising strategies and measures to ensure long-term prosperity for the entire nation.

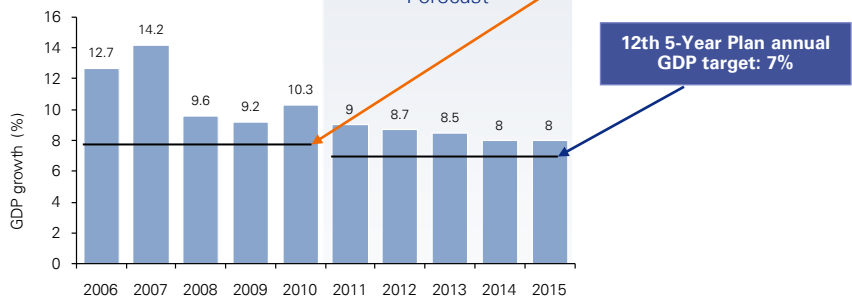
We should not only make the cake of social wealth as big as possible, but also distribute the cake in a fair way and let everyone enjoy the fruits of reform and opening up

- Premier Wen Jiabao, 27 February 2011

China's plan for national economic and social development

- On 14 March 2011, China's National People's Congress approved a new national development programme for the next five years from 2011 to 2015; the themes and targets in the plan will now form the basis for industry-specific and provincial five year plans which will be rolled out over the next few months.
- China's 12th Five-Year Plan emphasises "higher quality growth"; the country's rapid development during the past 30 years has lifted millions of citizens out of poverty, but has raised the question of sustainability as China grapples with challenges such as pollution, intensive energy use, and resource depletion.
- According to President Hu Jintao, another important feature of the new plan is the concept of "inclusive growth", as China attempts to solve the issue of increasing wealth disparity.
- The government has set the new annual GDP target at 7 percent over the next five years, but industry analysts expect annual growth to exceed 8 percent; by comparison, the 11th Five-Year Plan called for annual growth of 7.5 percent (actual: around 11 percent).

China's actual and forecast GDP growth vs. targets



Source: EIU

Key themes

- Sustainable growth
- Moving up the value chain
- Reducing disparities
- Scientific development
- Environmental protection
- Energy efficiency
- Domestic consumption

Important goals in the plan

- Develop China's western regions
- Protect the environment and improve energy efficiency
- Continue transitioning to an economy driven by domestic consumption instead of exports
- Improve the lives of Chinese citizens
- Develop seven priority industries, with the aim of increasing their GDP contributions from 2 percent of GDP to 8 percent by 2015
 - three sectors align with the theme of sustainable growth: energy savings and environmental protection; new energy; and clean energy vehicles
 - the other areas are consistent with China's ambition to move up the value chain: biotechnology; new materials; new IT; and high-end manufacturing.

12th Five-Year Plan vs. 11th Five-Year Plan: what is new?

- Housing target: develop 36 million units of affordable housing
- Two new pollution targets:
 - Nitrogen oxide: 10% reduction
 - Ammonia nitrogen: 10% reduction
- Wellbeing target: increase average life expectancy by one year
- Innovation target: 3.3 patents per 10,000 people
- Education target: increase high school enrollment ratio from 82.5% to 87%



China's 12th Five-Year Plan: Seven Priority Industries

- 1 New energy**
 - Nuclear, wind and solar power
- 2 Energy conservation and environmental protection**
 - Energy reduction targets
- 3 Biotechnology**
 - Drugs and medical devices
- 4 New materials**
 - Rare earths and high-end semiconductors
- 5 New IT**
 - Broadband networks, internet security infrastructure, network convergence
- 6 High-end equipment manufacturing**
 - Aerospace and telecom equipment
- 7 Clean energy vehicles**

Key economic targets

- Annual GDP growth: 7%
- Increase urbanisation from 47.5% to 51.5%
- Increase service sector contribution to GDP by four percentage points, from 43% to 47%
- Increase spending on R&D to 2.2% of GDP
- Hold inflation (CPI) at or below 4% per year

Key non-economic targets

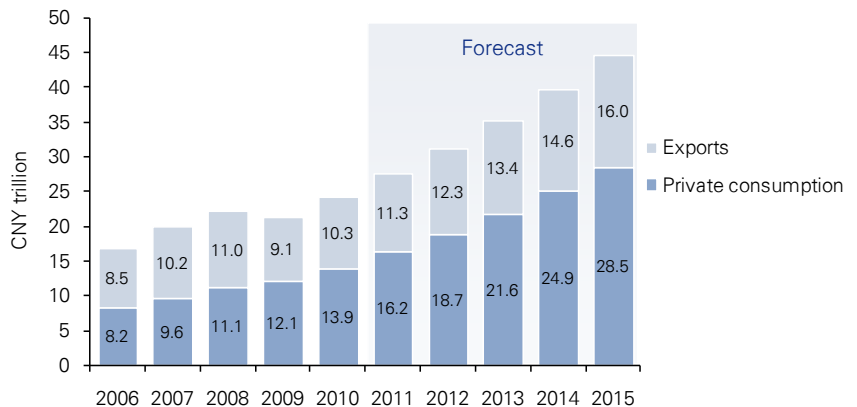
- Increase non-fossil fuel use to 11.4%
- Reduction of energy use per unit of GDP: 16%
- Reduction of CO₂ emissions per unit of GDP: 17%
- Increase forest coverage by 21.66%
- Decrease pollutants COD and sulfur dioxide by 8% each

What important challenges will China tackle in the new plan?

- Domestic consumption as a percentage of GDP fell to 36 percent in 2009, compared to about 45 percent a decade earlier, and short of China's target. While private consumption (please see graph below) still surpassed exports in 2009, the goal is to continue establishing a macro-environment that encourages domestic spending.
- The growing gap between rich and poor is also be addressed in the plan, partly by spurring income growth among Chinese workers. Some analysts predict that minimum wages will increase by more than 13 percent per year.
- Upgrading social welfare is a key initiative; specifically, increased state-supported education, health care and social security. These measures will reduce citizens' out-of-pocket expenses, and boost disposable income and consumer spending.
- Reduced energy use is a focus area in the 12th Five-Year Plan; industry experts believe China may push the use of non-fossil fuels to 15 percent of the country's total energy use by 2020. The 2015 target for non-fossil fuel is 11.4 percent.
- Funding earmarked for key areas: industry experts predict that the government will invest up to CNY4 trillion (about USD600 billion) to support areas such as IT, environmental protection, and scientific research.
- China's service sector output reached 43.4 percent of GDP in 2009 (11th Five-Year Plan target: 43.3 percent of GDP by 2010). Continued development of the service sector is an important element of the 12th Five-Year Plan.

Private consumption vs. exports

(2006-2015)



Source: EIU



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vivian.xu@kpmg.com**Who will be impacted by the Five-Year Plan?**

- Low-end manufacturers may come under pressure as China shifts to higher value-added products and services; industries facing overcapacity will be forced to consolidate.
- Ordinary Chinese citizens are expected to enjoy a higher standard of living as their disposable incomes increase and service-sector jobs become more plentiful.
- The low carbon sector, and the other priority sectors identified in the plan, will benefit from increased investment and incentives.
- Companies may need to consider moving production and operations to cheaper inland regions as labour costs in coastal areas continue to rise.

What can we expect in the immediate future?

- The release of the national plan document is not the end of the planning process: we can expect a steady stream of industry and provincial five year plans and implementation details to be made public over the next few weeks and months.
- In addition, China has set the following targets for the 5YP's first year:

Goal	2011 target
Total retail sales of consumer goods	Increase 16%
Broad money supply (M2)	Increase 16%
Reduction in energy use	3.5% reduction per unit of GDP
Reduction in carbon dioxide emissions	3.5% reduction per unit of GDP
Emissions of sulfur dioxide and nitrogen oxide	Reduce 1.5%
CPI	Increase 4%
Total fixed-asset investment	Increase 18%

Sources: (1) National People's Congress, Government Work Report, 5 March 2011
(2) National Development and Reform Commission Report, 5 March 2011
(3) Other sources: Reuters, Xinhua, China Daily, APCO Worldwide, HSBC, WSJ, EIU

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