An update review

China's 13th Five-Year Plan (2016-2020): Redefining China's development paradigm under the New Normal

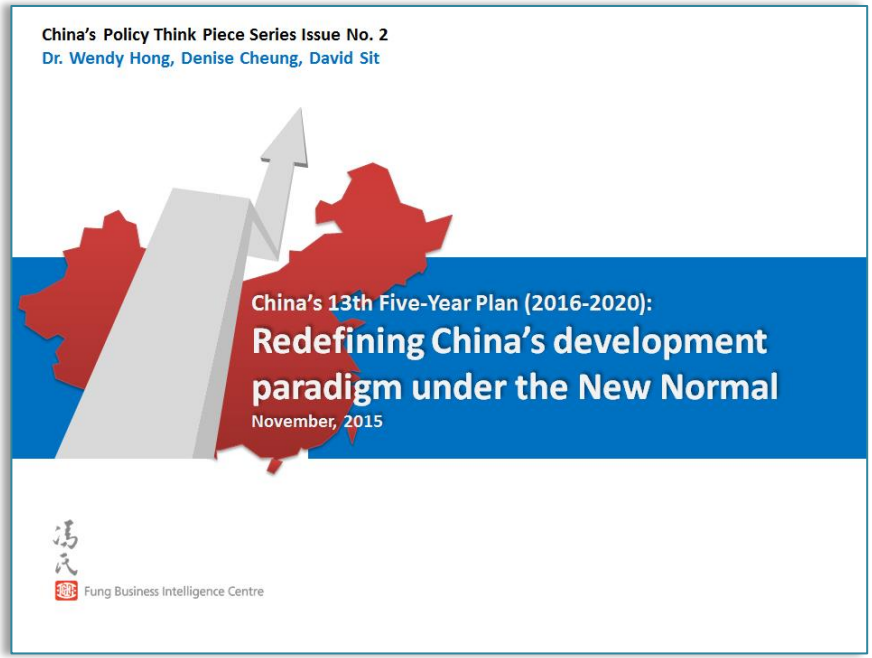
March 2016

FUNG GROUP 馮氏集團 110 Creating our Future 攜時並進 創造未來
馮氏 Fung Business Intelligence Centre 利豐研究中心

China's 13th Five-Year Plan and this report

- The Outline of China's 13th five-year Plan (the 13-5 Outline) was officially approved at the conclusion of the National People's Congress on 16 March 2016
- The 13-5 Outline was drawn up by the central government on the basis of the Chinese Communist Party (CCP)'s 'Opinions' on the 13-5 plan, a guideline released on 29 Oct 2015
- In the previous issue of ***China's Policy Think Piece Series (Issue 2, November 2015)***, we assessed the possible business implications of the 13-5 Plan, based on the CCP's 'Opinions'

- After an in-depth examination of the finalized 13-5 Outline, which is much more detailed with specific development goals, priorities and policy frameworks compared with the CCP's 'Opinions', we find ***our previous report on 13-5 still relevant***
- At the same time, we identified ***4 new issues*** in the 13-5 Outline that warrant further examination considering their implications to both China's development as well as their business implications
- ***This report*** is an update review of the 13-5 Outline, focusing on the 4 new issues



4 issues in the 13-5 Outline for further examination

1. A new transforming path emphasizing 'supply-side reform'
2. City cluster as the primary spatial strategy
3. A more flexible approach to minimum wage
4. A significantly expanded high-speed rail network

1. A new transforming path emphasizing 'supply-side reform'

- "Supply-side reform", a term started to be stressed since the end of 2015, is emphasized as **the new development path** in the 13-5 Outline
- China used to rely on stimulating the demand side, including investment, consumption and exports, to support growth
- The effectiveness of such a strategy has lessened since China has entered the "new normal" status, in which China's most pressing issue lie in **the supply-demand mismatch and imbalance**, demonstrated by Chinese tourists' shopping spree during their overseas trips which coexists with overcapacity in many domestic industries

- Supply-side reform was seen by many as **a turning point in macro-policy** essential for China to further move to higher value added industries, such as high-tech industries and advanced services, and hence the changing structure of the economy
- However, **demand-side management is not going away** while attending to the supply side. The 13-5 Outline stressed that China should work more on the supply side "while moderately expanding overall demand"

Supply-side reform in China: what is it and what to do?

Box 1: Supply-side reform: What is it?

"Supply side reform" was first raised in November 2015 by President Xi jinping who pointed out that the Chinese economy shall "emphasis on quality and efficiency of the supply side". The term has since been repeatedly mentioned by Xi Jinping and Premier Li Keqiang.

China has a large scale traditional manufacturing sector which has been expanding in a traditional way over the years, regardless of the changing demand pattern of Chinese consumers. That's why expanding large scale investment has little effect in promoting economic growth over the past several yeras.

The key idea of supply-side reform is to upgrade the quality of outputs in the economy, so as to accommodate the ever evolving demand pattern.

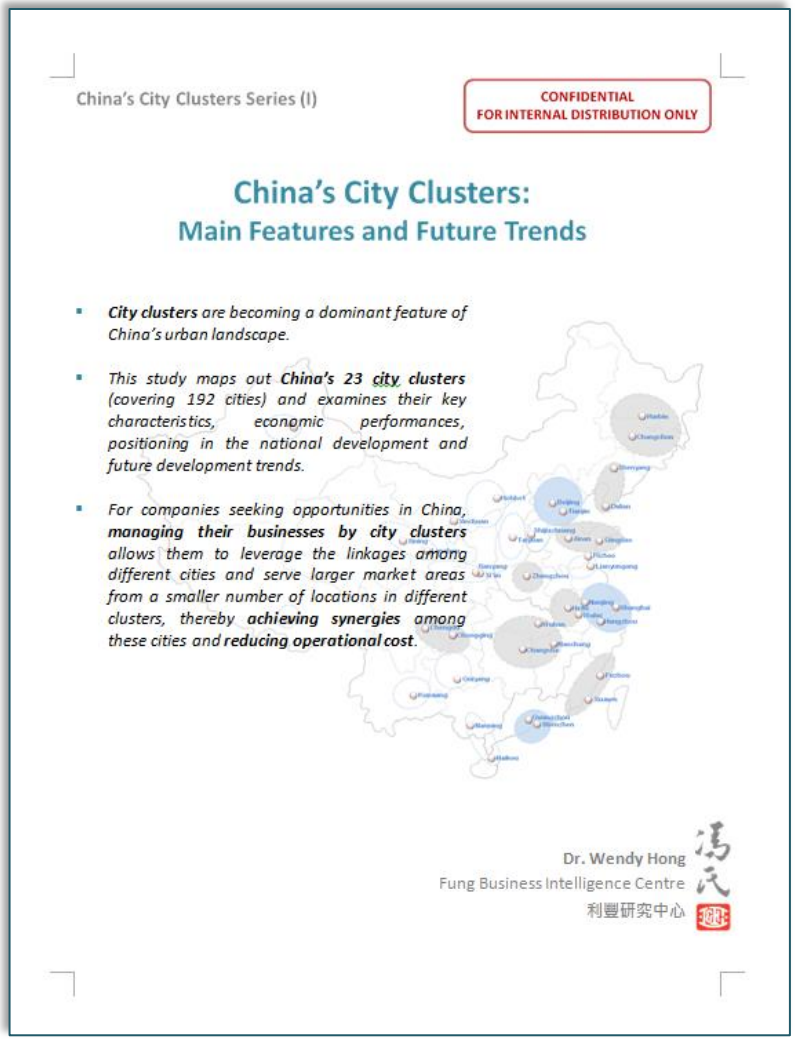
Box 2: Supply-side reform: What to do?

Supply-side reform will include:

- Tackling factory overcapacity and property inventories
- Incentive for specific industries (high-tech industries, advanced manufacturing and services) to increase effective supply
- More tax cuts
- Lowering corporate borrowing costs
- Easing administrative restrictions
- Preventive measures against regional and systemic financial risks and social risks

2. City Clusters viewed as the primary spatial strategy in the 13-5 outline

- City cluster is viewed in the 13-5 Outline as **the primary spatial strategy** to achieve new-type urbanization, balanced regional development, and further opening up in inner regions
- With such a spatial strategy during the 13-5 period, understanding the current configuration and future development trends of China's city clusters is of **critical importance** for companies seeking opportunities in China
- FBIC 's study on China's city clusters maps out China's 23 city clusters and examines their main features and future trends



China's City Clusters Series (I)

CONFIDENTIAL
FOR INTERNAL DISTRIBUTION ONLY

China's City Clusters:
Main Features and Future Trends

- ***City clusters*** *are becoming a dominant feature of China's urban landscape.*
- *This study maps out* ***China's 23 city clusters*** *(covering 192 cities) and examines their key characteristics, economic performances, positioning in the national development and future development trends.*
- *For companies seeking opportunities in China,* ***managing their businesses by city clusters*** *allows them to leverage the linkages among different cities and serve larger market areas from a smaller number of locations in different clusters, thereby* ***achieving synergies*** *among these cities and* ***reducing operational cost****.*

Dr. Wendy Hong
Fung Business Intelligence Centre
利豐研究中心

** For more detailed analysis on China's city clusters, please see our report "China's City Clusters: Main Features and Future Trends"*

City clusters in the 13-5 Outline

Box 3: What is a city cluster?

A city cluster usually comprises one or two megacities or large cities as hubs and with a few geographically adjacent cities linked by commuting corridors, with increasing social and economic interdependence.

Typically, city clusters exhibit a higher population density and a higher level of productivity when compared with national averages.

Worldwide, city clusters have become the primary trend for urbanization because they are both the venues of job creation and places where modern services are provided.

Box 4: City clusters in the 13-5 Outline

"City clusters" as they key spatial strategy is stressed **in 4 chapters** in the 13-5 Outline:

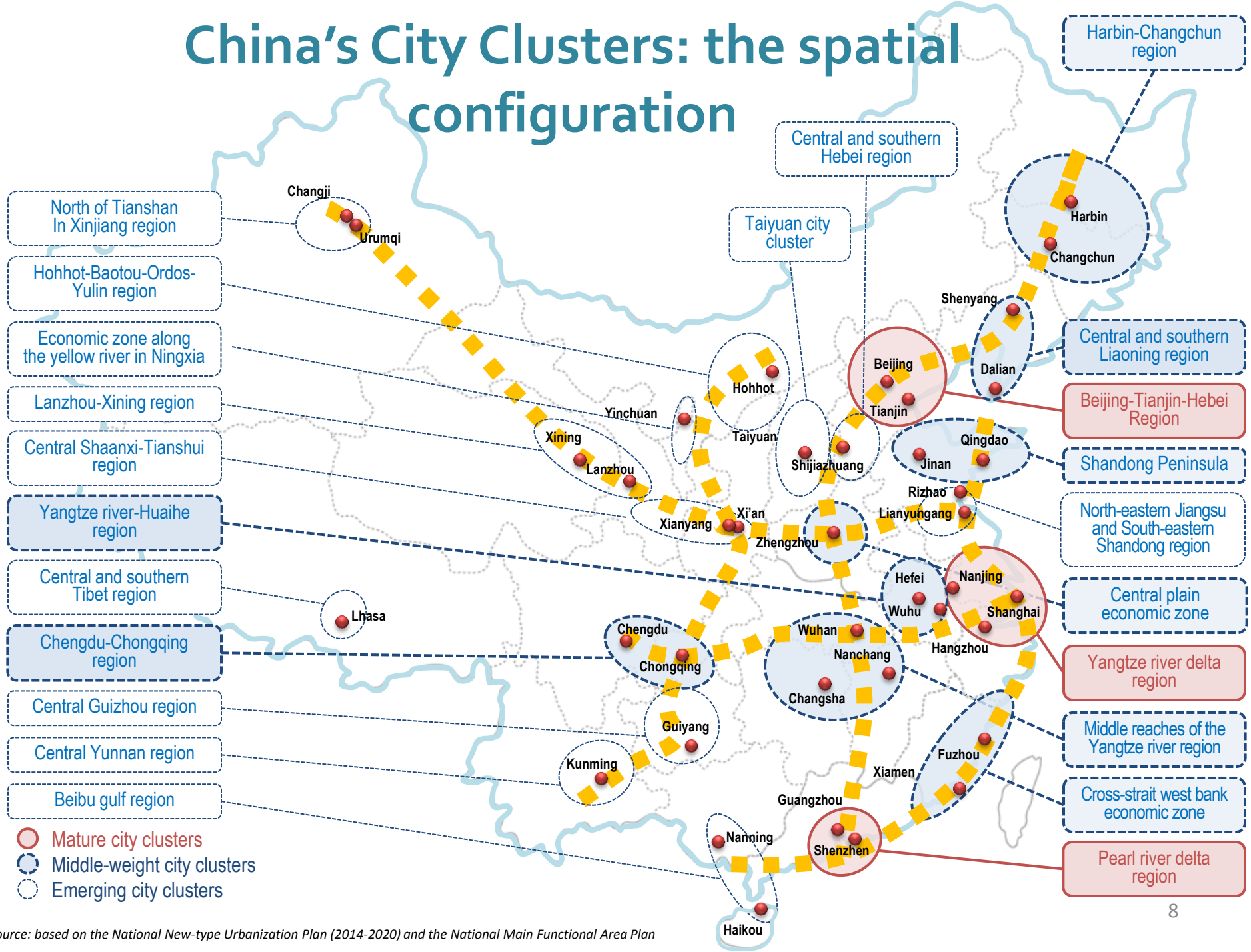
- Chapter 33, Optimize the structure and layout of urbanization
- Chapter 37, The comprehensive strategy for regional development
- Chapter 38, Coordinated development of Beijing-Tianjin-Hebei
- Chapter 49, Optimize the opening up strategy

Box 5: The configuration of China's city clusters

- China's city clusters can be described as a configuration of "two horizontal and three vertical corridors" in the layout, with the five corridors forming the backbone of China's further urbanization and regional development
- The two horizontals :
  - ✓ The continental land corridor
  - ✓ The Yangtze River corridor
- The three verticals
  - ✓ The coastal corridor
  - ✓ The Harbin-Beijing-Guangdong corridor
  - ✓ The Baotou-Kunming corridor

** For more detailed analysis on China's city clusters, please see our report "China's City Clusters: Main Features and Future Trends"*

China's City Clusters: the spatial configuration



Source: based on the National New-type Urbanization Plan (2014-2020) and the National Main Functional Area Plan

3. A more flexible approach to minimum wage during the 13-5 period

- Wage levels in China have increased steadily over the last decade, driven by rapid economic growth and declining population growth
- The Chinese government has been endeavoring to increase household incomes and wages to help spur private spending
- The **12th** five-year plan (2011-15) targeted **an average 13% increase** in minimum wage each year, along with a more modest annual increase in household income (about 7%)
- As a result, minimum wage in China increased by more than **60%** on average during the 12-5 period
- This has presented companies with the severe challenge of keeping expenses at bay amid a slowing economy
- Many labor-intensive industries such as garments, toy and shoe manufacturing are transferring some production to other cheaper locations

Box 6: Minimum wage in the 12-5 plan

- **The 12-5 Outline: "to gradually raise minimum wage standard"**
- **The 12-5 Outline of the Human Resources and Social Security Development *: "to increase the minimum wage by at least 13% annually"**

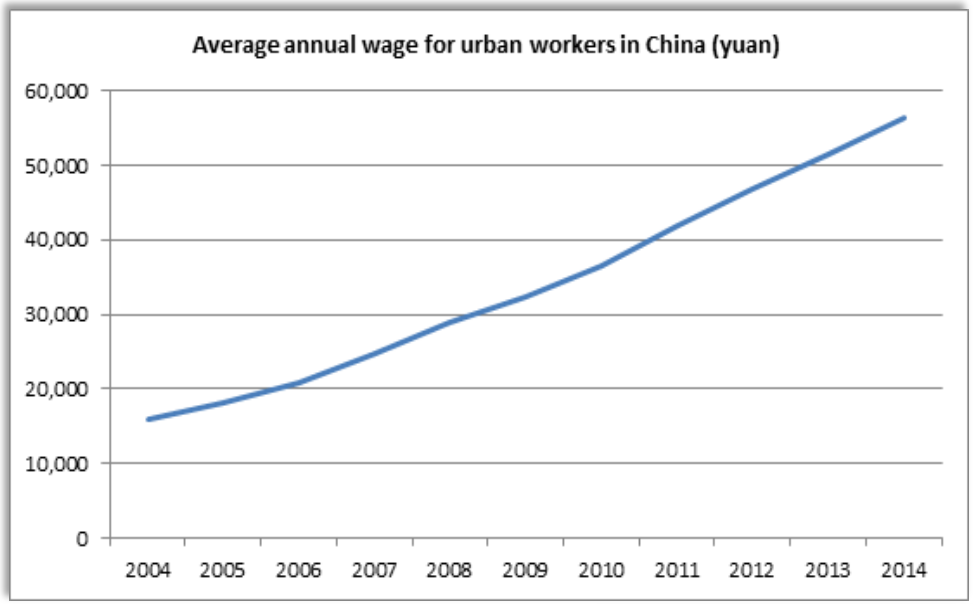
Box 6: Minimum wage in the 13-5 plan

- **"to perfect the mechanism of minimum wage increase"**
- **"to reasonably set the minimum wage level"**

Instead of stipulating a specific target for minimum wage increase, the 13-5 plan adopts a more flexible approach to minimum wage

*: 《人力资源和社会保障事业发展"十二五"规划纲要》

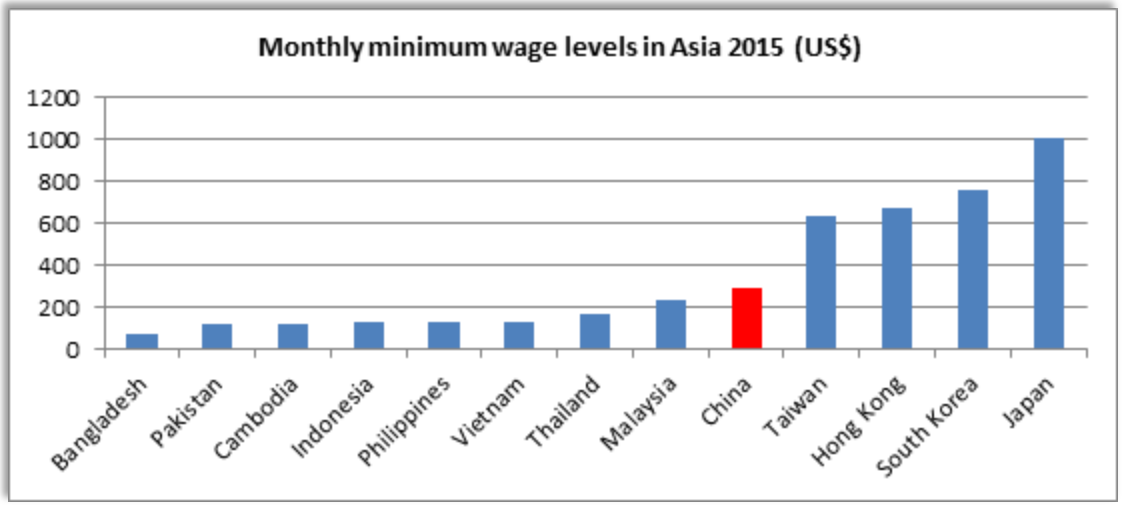
Minimum wage in China is now in the mid-to-upper range of Asian countries



Source. National Bureau of Statistics.

There has been near double digit growth in the national average annual wage for urban employees in China since 2004, with the average wage reaching RMB 56,339 in 2014 (around US$9,000)

Internationally, China's minimum wage (in coastal cities at least) is now in the mid-to-upper range of Asian countries, much higher than for factory workers in Bangladesh, Cambodia, and Vietnam



Note: In countries where only hourly or daily rates are available, the equivalent monthly rates are calculated on the basis of a 160 hour working month. Exchange rates were calculated on 30 July 2015.
Source: China Labor Bulletin, see http://www.clb.org.hk/content/wages-and-employment

4. A significantly expanded high speed rail network linking 80% of China's large cities

- China has one of the largest High Speed Rail (HSR) in the world
- The "Middle to Long Term High Speed Rail Development Plan" announced in 2008 planned to complete a HSR network of 19,000 km by 2020
- In the 13-5 Outline, the network of HSR will further **extend by 60%** from 19,000 km to 30,000 km by 2030, and the current layout of "4-horizontal and 4 vertical axes" will be expanded to "**8-horizontal and at least 10 vertical axes**", covering more than 80% of large cities in China

The 2008 HSR plan:
4-horizontal and 4 vertical axes

The expanded mid-to-long term high speed rail plan in the 13-5 Outline (2030)

Source: the 13-5 Outline; Legend translated by FBIC

Implications for Business

Implication for business

1. A new transforming path emphasizing supply-side reform

- Supply-side reform emphasize on quality, authenticity and innovation in both manufacturing and service sectors so as to provide 'effective supply' to meet ever evolving and upgrading demand of consumers
- The business can expect **an intensifying structuring reform in China** in the coming 5 years, with further constrains to industries that have obsolete capacity and strengthened support to advanced industries and sectors that can simulate consumption
- Supply-side reform also emphasizes on **lowering enterprises' operational cost and easing administrative restrictions**, which might mean a more favorable environment for profit growth and reasonably free market for companies in general

2. City cluster as the primary spatial strategy

- With the city cluster strategy, cities in China are increasingly functioning in clusters
- For companies seeking opportunities in China, **managing their business by city clusters** allows them to leverage the linkage among different cities and serve larger market areas from a smaller number of locations in different clusters, thereby **achieving synergies** among these cities and **reducing operational cost**

Implication for business

3. A more flexible approach to minimum wage

- Instead of stipulating a specific target for minimum wage increase, the 13-5 plan adopts a more flexible approach to minimum wage, which stresses "to reasonably set minimum wage level" and "to perfect the mechanism of minimum wage increase"
- This is believed to be a response to the economic slowdown and the increasing migration of manufacturing activities to other developing countries
- Nevertheless, **further and continuous increase in minimum wage is unavoidable** in the coming years, although possibly with a slower pace compared with in the 12-5 period, since the 13-5 plan at the same time targets at doubling average households income in 2020 from the 2010 level to improve living standards and quality of life for Chinese people
- For companies doing business in/with China, adapting to the continuous rising cost and **tapping into China's other advantages**, such as the rising productivity and sophisticated industrial chains, is becoming critical for avoiding losing ground in China in the coming years

Implication for business

4. An expanded high-speed rail network linking 80% of China's large cities

- High-speech rail is changing fundamentally the geography and urban landscape in China, with consequent **implications to supply chain relationship among Chinese cities** as well as people's cross-city transportation and life patterns
- For business, an expanded high-speed rail system linking 80% of China's large cities might mean **a greatly enlarged and better linked production/sourcing hinterland and consumption market** for companies in these cities
- The expanded new HSR system would also significantly improve intra- and inter- city cluster connections, allowing cities within a cluster to better utilize resources and benefit from mutual competitive advantage, while the country may achieve a geographically balanced development across different clusters

Contacts

Business Policy and City Clusters in China

Wendy Hong
Vice President
Tel: (852) 2300 2475
Email: wendyhong@fung1937.com

David Sit
Senior Research Analyst
Tel: (852) 2300 2479
Email: davidsit@fung1937.com

Fung Business Intelligence Centre
10/F, LiFung Tower,
888 Cheung Sha Wan Road,
Kowloon, Hong Kong
Tel: (852) 2300 2470
Fax: (852) 2635 1598
Email: fbicgroup@fung1937.com
http://www.fbicgroup.com/

FBIC_2000

@fbicgroup

Fung Business Intelligence Centre

fbicgroup.com

© Copyright 2016 Fung Business Intelligence Centre. All rights reserved.

Though the Fung Business Intelligence Centre endeavours to have information presented in this document as accurate and updated as possible, it accepts no responsibility for any error, omission or misrepresentation. Fung Business Intelligence Centre and/or its associates accept no responsibility for any direct, indirect or consequential loss that may arise from the use of information contained in this document.