
FOUND IN TRANSLATION



China's five-year economic plans contain many vital signposts for businesses says **St. John Moore**, Brunswick, Beijing. It's a case of reading between the lines

Well before March, when the country's latest five-year economic plan was unveiled, China's President Hu Jintao had been road-testing the phrase "inclusive growth" as a concept central to the next phase of China's economic development. While such political slogans might easily be dismissed in the West, they carry weight in China, where they typically have subtle and multi-layered meanings. Perhaps the most famous of modern Chinese political slogans was Deng Xiaoping's – "It does not matter if a cat is black or white as long as it catches mice" – which conveyed a fundamental shift away from the strictly collectivist era of Mao to one in which some aspects of entrepreneurship were encouraged in order to spur economic development.

At this year's *lianghui* in Beijing, an annual gathering of the most senior political leaders and advisers from across the nation, the 12th Five-Year Plan set out the key economic and developmental goals through 2015. The *lianghui* can be overlooked as merely a highly orchestrated rubber-stamp affair, given that membership is dominated by the ruling Communist Party. However, it is of critical importance to companies doing business in China. Reading past the political rhetoric, the five-year plan provides one of the clearest guides available for companies doing business in China or contemplating investment.

Previous plans featured the phrases "harmonious society" and "scientific development." The former signified policies that would help narrow the income gap and promote equality; the latter indicated efforts to foster technological innovation and a more environmentally friendly approach to development. The interpretation of "inclusive growth" is still up for debate, but one aspect of its meaning seems to be "an orderly progression," which has been taken to mean that the government will tolerate a slower rate of growth.

Indeed, the revelation that the Chinese government would lower the official national economic growth target to 7 per cent annually over the next five years was a significant departure from a long-standing target of 8 per cent, which was deemed an important symbolic commitment to provide employment and ensure individual advancement – and to avoid social unrest. The move to a lower growth target reflects a growing concern among policymakers that the basis for recent rapid economic expansion is unsustainable and could lead to future instability.

However, it is important to remember that the official national targets have usually been exceeded in the past, and even the 2011 official targets for many provinces are well above the new official national target. Provincial growth targets for 2011 and the actual performance of the national economy 



The *lianghui* (两会), or “two meetings,” refers to the annual gathering of the National People’s Congress and the Chinese People’s Political Consultative Conference, which are typically held during the first two weeks in March. New five-year economic plans are unveiled at these conclaves. The National

People’s Congress is the highest legislative body in China and has sole responsibility for enacting legislation in the country. The Chinese People’s Political Consultative Conference is an advisory body that includes politicians, academics, business people, celebrities and experts from various fields.

The Rule of Eight

In the early 1980s Deng Xiaoping consulted senior leaders to come up with the growth number needed to quadruple the nation's annual industrial and agricultural output by the turn of the century. The answer was 8 per cent. Though not based on any scientific analysis, the number nonetheless stuck as a symbol of intent – and also happens to be the luckiest number in Chinese numerology. The target for 2011 is also 8 per cent, but for the 2011-15 period of the plan it has been lowered to 7 per cent a year.

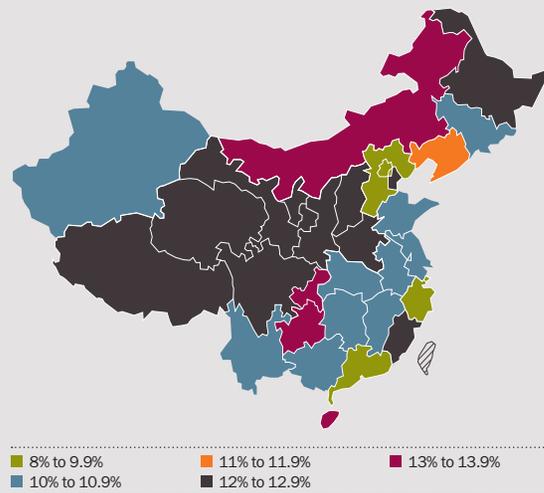
Auspicious targets, real numbers

Annual GDP targets versus actual outcomes

	Target	Actual
2011	Around 8%	–
2010	Around 8%	10.3%
2009	Around 8%	9.2%
2008	Around 8%	9.6%
2007	Around 8%	14.2%
2006	Around 8%	12.7%
2005	Around 8%	11.3%

Provincial 2011 GDP targets

In spite of a national growth target of 8 per cent, many 2011 provincial targets are much higher.



Source: Report on the Work of the Government, National Bureau of Statistics, statements from provincial People's Congress meetings, 2011

over the previous five years demonstrate the large divergence between the official targets and actual outcomes (see left). The 7 per cent target is therefore not to be taken literally. Nevertheless, it is an important signal from the central political leadership. Businesses are being encouraged to focus on the *quality* of their growth in order to support Premier Wen Jiabao's call to "transform the country's economic growth pattern."

In the weeks and months following its release, senior officials fleshed out the meaning of the headline targets and slogans of the five-year plan. For example, in an interview with Chinese newspaper *21st Century Business Herald*, Li Wuwei, Vice-Chairman of the Chinese People's Political Consultative Conference, explained, "During the next five years, China will focus more on altering its economic growth pattern while tackling environmental issues. We're aiming for higher quality GDP growth."

There is a clear intent to shift China away from a reliance on high-volume, low-wage manufacturing and exports – all of which have contributed to the environmental challenges China faces today – and to expand domestic consumption and high-end imports.

Along with changing the domestic growth pattern, there is also a desire to re-balance China's trade with foreign nations, as President Hu Jintao outlined in his "inclusive growth" speech to the Asia-Pacific Economic Cooperation meeting last September. For multinational companies, it is important to note that China is encouraging a different type of inbound investment – less low-wage manufacturing and more research-based industries that will foster indigenous innovation.

SHIFTING GOALS

As well as the pace of growth, shifting consumption patterns, environmental goals and so on, China's leaders also set strategies aimed at fostering specific industrial policies.

The development of cleaner and more efficient energy remains a top priority, with a desire for improved use of traditional energy sources as well as the development of clean energy technology. This opens up direct opportunities for companies in the energy sector, but is also important for companies in other sectors to show that they understand the signals the government is sending about energy.

PepsiCo, for example, built a "green" beverage plant in Chongqing that met the highest standards of

energy efficiency, certified by the US Green Building Council. The facility is designed to use 22 per cent less water and 23 per cent less energy than the average PepsiCo plant currently in operation in China.

In the latest plan, China also set seven new high-priority strategic sectors for development over the coming five years: energy conservation; environmental protection; new energy; biotechnology; high-end equipment manufacturing; new materials; and new energy vehicles. These new strategic sectors will receive specific incentives and support.

Plans for the rapid expansion of the high-speed transportation network are influenced by China's need to spread prosperity from the coastal cities to the interior. Significant investment is earmarked to further enhance the network with new expressways, high-speed railway lines, airports, and waterways scheduled to be built in the coming years.

Again, beyond the direct investment opportunities there are other implications. The new networks are transforming inland provinces and reducing the need for local workers to travel to coastal provinces to find employment. Manufacturing facilities in coastal provinces have already reported a significantly tighter employment market as a result.

The government also intends to expand access to healthcare and enhance hospital management systems. They will also encourage non-governmental foreign investors to establish medical institutions.

HOME-GROWN TALENT

China has paid significant attention to the role of "indigenous innovation" in industrial plans. As with most countries, China is concerned about promoting its own inventors and innovators who will provide the growth of the future. This has been an explicit concern at least since 2006, when the State Council issued "The Guiding Principles for Mid-to-Long-Term Scientific and Technological Development (2006-2020)," a plan to support domestic innovation via a package of tax breaks, financial support, and other incentives.

There was consternation among foreign companies that Chinese companies would be favored. But following significant international engagement, Premier Wen stated in April last year that "the policy that is designed to encourage indigenous innovation

will treat all enterprises that operate on Chinese soil as equals and will not exclude foreign enterprises." During the third US-China Strategic and Economic Dialogue in May this year, the Chinese government agreed to officially decouple indigenous innovation from government procurement policies. However, the indigenous innovation policy remains a concern for foreign governments and businesses, which are waiting to see how and when the adjustments will be implemented at central and provincial levels.

The reasons behind China's worries are clear. Political leaders have expressed concern that China cannot continue to rely on the kind of growth it has seen in the past. The country will not require the same volume of new roads, railway lines, and buildings in the future. If a fundamental shift in the economic growth model is not implemented today – based on improving quality, environmental sustainability, and diversity – then China's ability to deliver prosperity and stability will be challenged.

China's leaders want economic growth that will rely less on manufacturing and infrastructure. This means a greater emphasis on the service sector as well as on innovation. While manufacturing has been the engine of growth and employment, there is concern that the largest economic return continues to be earned overseas and that an unreasonably large percentage of pollution in China is caused by the manufacturing of goods for export. Also, the risks attached to China's reliance on manufacturing and exports were highlighted when the global financial crisis hit and overseas demand suddenly dried up.

Foreign companies operating in China have to consider carefully the meaning of the country's political rhetoric and broad economic goals. Some of the national objectives in the 12th Five-Year Plan may sound vague, and some specific numbers may not tally, but there are often more oblique meanings that can help companies to define risks and opportunities, and to make sure their plans, actions and messages are in line with China's true national priorities. ☺

**"THE POLICY...WILL
TREAT ALL ENTERPRISES
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FOREIGN ENTERPRISES"**



Premier Wen Jiabao

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