



# The 14th Five-Year Plan: Sector Impact Outlook

**KPMG China**  
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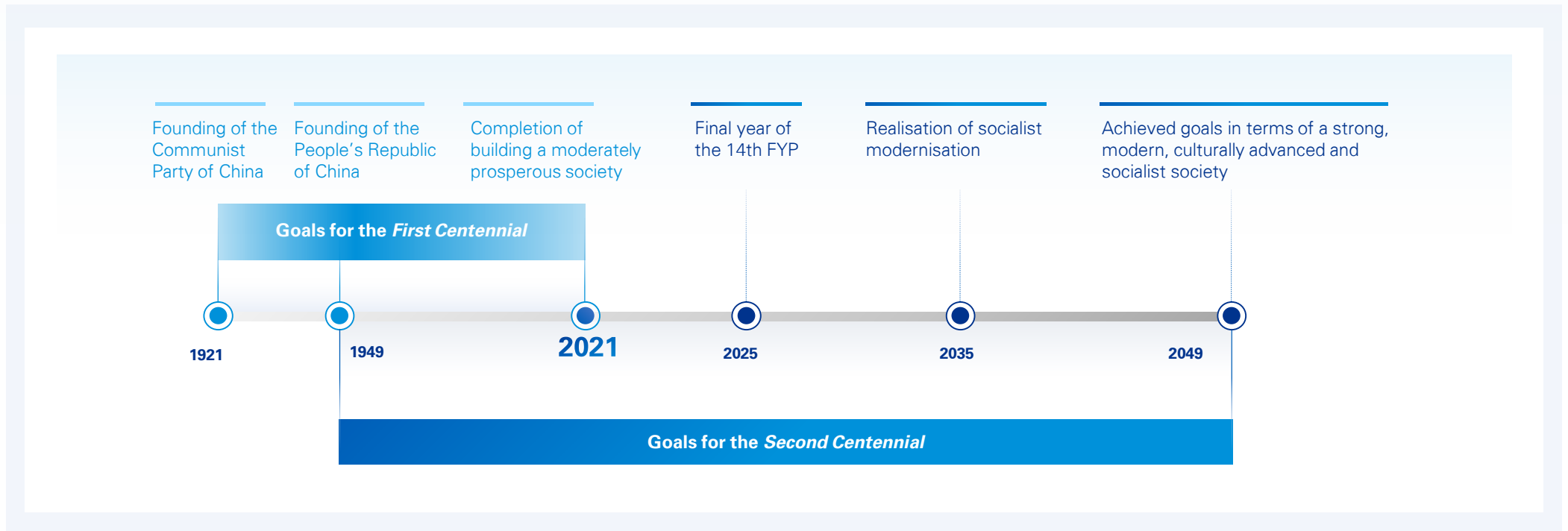


# China's new development path under the 14th FYP

2021 sees the start of China's 14th Five-Year Plan (14th FYP), particularly noteworthy as it charts the first five years of China's new journey towards fully building a modern socialist country and achieving its second centennial goals. These five years also constitute a 'critical period of strategic opportunities' for China to explore and experiment with new models of development amid significant changes inside and outside the country.

In October 2020, the fifth plenary session of the 19th Central Committee of the Communist Party of China passed the *Recommendations for the Formulation of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035* (the Recommendations) to guide development under the 14<sup>th</sup> FYP.

**Figure 1** Goals for the *Two Centennials*



Source: Government reports, KPMG analysis



The Recommendations describe three new dimensions of development: a new development stage, a new development philosophy and a new development strategy.

**Figure 2 The three key features of the 14th FYP**

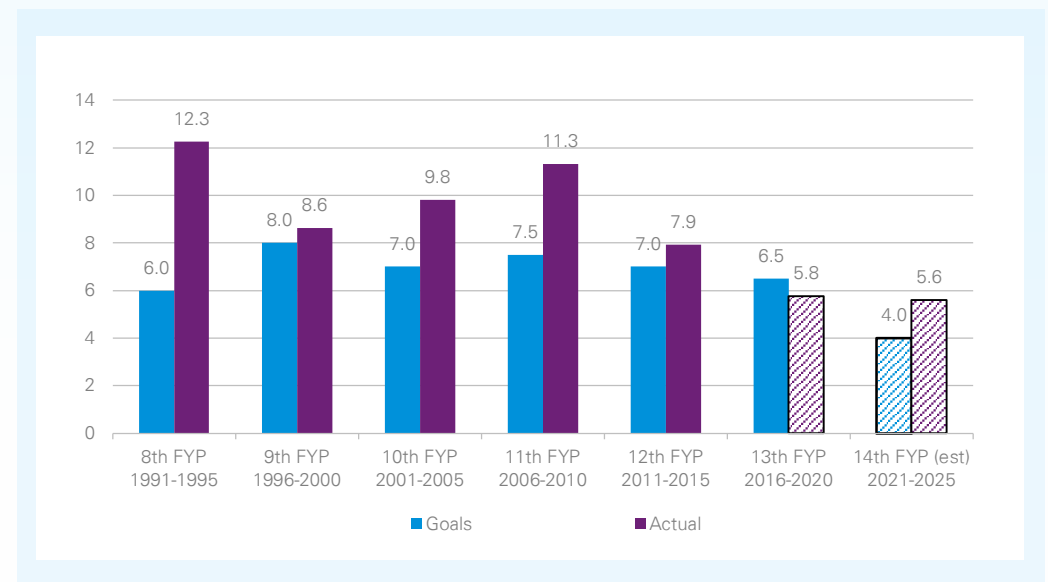


Source: Government reports, KPMG analysis

Unlike the previous FYPs, the economic development goals set out in the Recommendations from the 14th FYP period to 2035 are expressed in both qualitative and quantitative terms. According to these goals, China's economy is expected to maintain average growth of 4.0% over the next five years and meet the current standards for high-income countries by the end of the 14th FYP period. We estimate that China will sustain average growth of 5.6% during the 14th FYP period, well above this target.

During the 14th FYP period, China will continue to shift its focus from rapid economic growth towards optimising the country's overall economic structure and improving people's living standards. With these objectives in mind, China will focus on enhancing the quality and efficiency of its development.

**Figure 3 Targeted and actual GDP growth rates for various FYP periods (%)**



Source: Government reports, Wind, KPMG analysis

The 14th FYP period is a decisive stage in China's transformation, as the country transitions from a moderately prosperous society into a modern socialist country. With China shifting its focus to high-quality development, the various sectors of the economy are expected to upgrade and change significantly as more challenges and opportunities arise. In the sections below, we describe the changes and opportunities that the Recommendations will bring to 10 sectors: asset management, auto, banking, energy, healthcare and life sciences, industrial manufacturing, insurance, technology, real estate and retail.

# Supporting the real economy and mitigating risks

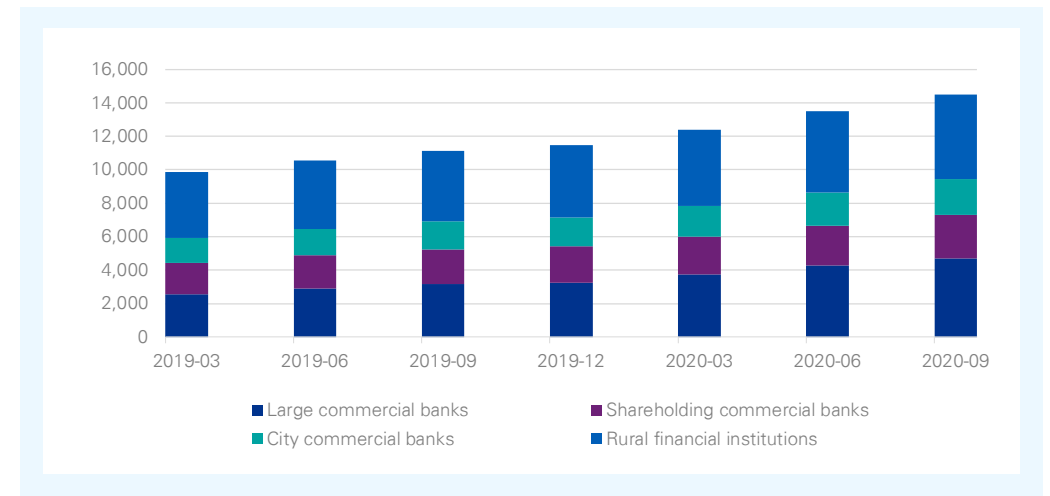


One of the main themes of the 14th FYP is the continued reform and opening-up of the financial sector. The Recommendations include several plans for this sector. In fact, the word 'financial' is mentioned 16 times in these documents. In view of the banking sector's current dominance in China's financial system, the Recommendations put forward goals that include "the further reform of state-owned commercial banks, the sustainable and healthy development of small and medium-sized banks and rural credit cooperatives, and the reform and optimisation of policy-based financing". The Recommendations also call for the steady advancement of market-oriented interest rate reforms and more efficient allocation of resources in the financial system. During the 14th FYP period, we believe that the banking sector should focus on supporting and serving the real economy, developing a digital currency and strengthening the financial regulatory system.

## Key trends

- 01 Focus on better serving and supporting the real economy
- 02 Consolidation of resources to help small to medium-sized banks strengthen their risk capabilities
- 03 Continuous promotion of pilot testing for the e-CNY, China's Central Bank Digital Currency (CBDC)
- 04 Modernisation of the financial regulatory system

**Figure 4 Inclusive bank loans to micro and small enterprises, RMB billion**



Source: Wind, KPMG analysis

## Asset management

# Deepening the reform and opening-up of capital markets, and optimising financing structures and household investment portfolios

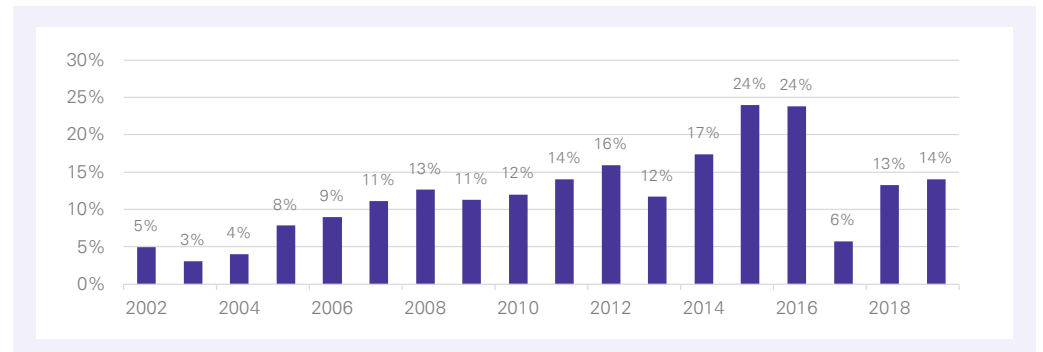
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The new 'Dual Circulation' development strategy places the domestic market as the mainstay for China's future growth, which makes indigenous innovation even more critical. In order to successfully upgrade, enterprises in the relevant industries need to operate in a multi-level investment and financing system. For this reason, during the 14th FYP period, capital markets should focus on the reform and opening-up of the capital market and the optimisation of corporate financing structures.

## Key trends

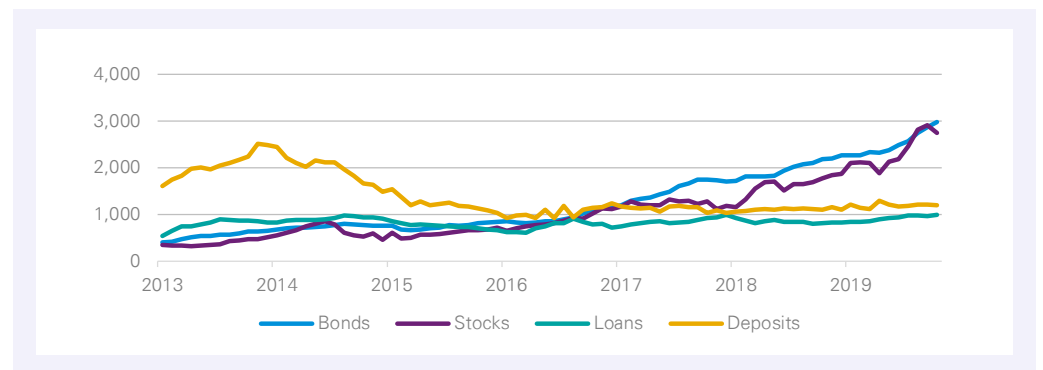
- 01 Increase in the share of direct financing in the economy
- 02 Promotion of the opening-up of capital markets and RMB internationalisation
- 03 Diversification of household wealth allocation
- 04 Promotion of green finance to support sustainable development
- 05 Use of technology to empower the asset management industry

**Figure 5 The share of equity and bond funding in China's total new financing**



Source: Wind, KPMG analysis

**Figure 6 RMB financial assets held by overseas investors, RMB billion**



Source: Wind, KPMG analysis

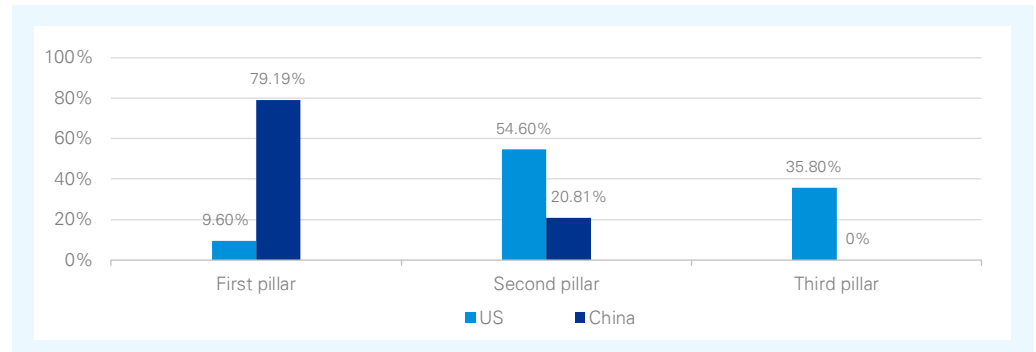
# Accelerating the development of personal commercial pensions into a main driver to improve society and people's livelihoods

Mentioning 'insurance' nearly 15 times, the Recommendations discuss the future of multiple insurance sub-sectors, including long-term care insurance, commercial medical insurance, agricultural insurance, natural disaster insurance, critical illness medical insurance, basic medical insurance, basic pension insurance, unemployment insurance, work-related injury insurance, deposit insurance, public service platforms for social insurance, and the three-pillar pension insurance system in China. These insurance sub-sectors will become key drivers for industry as it further develops. Going forward, insurance providers are expected to work to improve the services and plans they offer, directly impacting people's livelihoods, economic development and society as a whole.

## Key trends

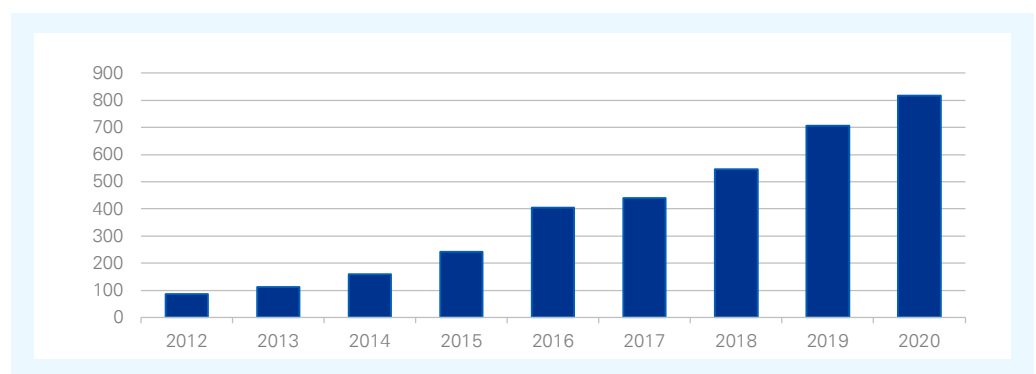
- 01 Accelerated development of commercial insurance as the third pillar of the pension system
- 02 Fast-growing and more diversified demand for health insurance
- 03 Continuous development of agricultural insurance to promote social inclusiveness
- 04 Addressing gaps in catastrophe risk protection

**Figure 7** Market penetration of first-, second-, and third-pillar<sup>1</sup> pension insurance in China compared to the US, 2018



Source: China Merchants Bank , KPMG analysis

**Figure 8** Health insurance premiums in China, RMB billion



Source: Wind, KPMG analysis

<sup>1</sup> Three pillars refer to government scheme, enterprise/occupational annuities, and private pensions for individuals respectively. (Source: *China pensions landscape— the year in review and what's ahead*, March 2019, KPMG China )



## Consumer markets

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# Consumption has become the cornerstone of China's economy, with new forms of consumption and business models emerging

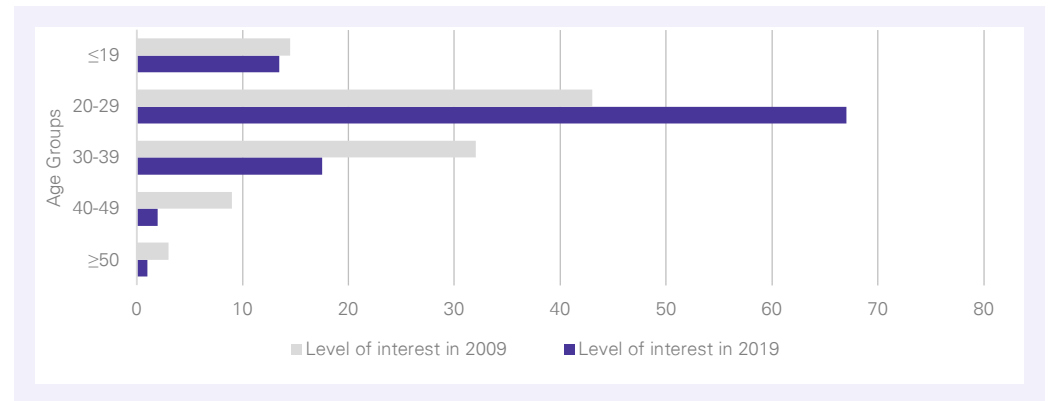
China's consumer market has experienced a sustained post-pandemic recovery. The recovery was initially driven by manufacturing and production, investment and exports. As the economy continues to recover, consumption and service industries will play a more pivotal role.

The Recommendations call for the "stimulation of consumption in all sectors", and focus on how to achieve this goal. Consumer and retail markets are expected to surge rapidly during the 14th FYP period and become a cornerstone of China's economic development.

## Key trends

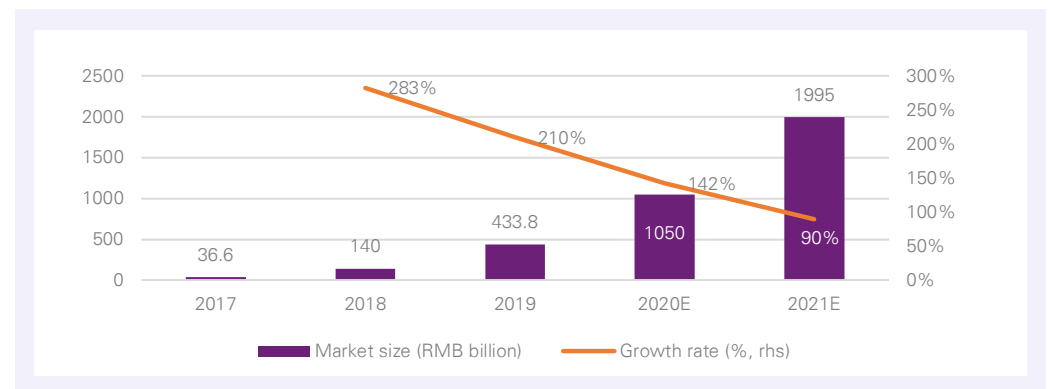
- 01 Rise of indigenous Chinese brands
- 02 Booming new consumption patterns such as livestream e-commerce, private domain traffic and duty-free shopping
- 03 A large market in lower-tier cities and rural areas
- 04 Local services such as community group shopping will usher in more opportunities

**Figure 9** Distribution of interest in Chinese local brands by age group



Source: Baidu, people.cn, KPMG analysis

**Figure 10** Market size and growth of livestream e-commerce, 2017-2021



Source: *Live Streaming E-commerce Strides Towards a RMB 1 Trillion Market*, KPMG and AliResearch, November 2020

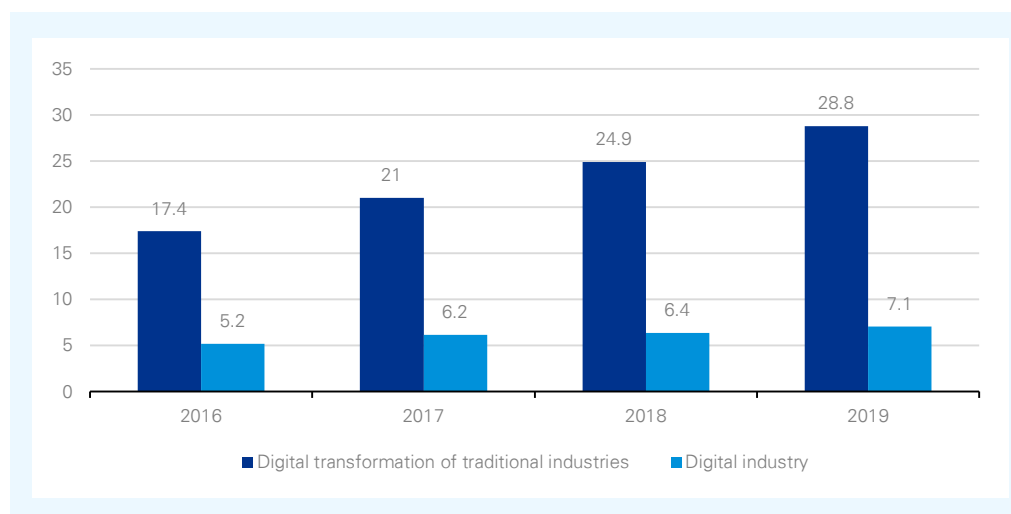
# Achieving technological independence and enhancing strength to become a manufacturing powerhouse

During the 13th FYP period, China promoted supply-side structural reforms to boost production capacity and improve certain industries. As a result, the country's capacity utilisation rate gradually rebounded from a low of 73.1% in the second quarter of 2016 to 78% by 2020. Going forward, the Recommendations aim to "boost the modernisation of industrial chains and supply chains, and maintain a stable proportion of the manufacturing sector". During the 14th FYP period, we expect China to continue to pursue its main goal of becoming a manufacturing powerhouse, leveraging innovation and connectivity within the manufacturing industry to promote high-quality economic development. With 5G, the industrial Internet of Things, big data analytics and other new infrastructure, the manufacturing industry is set to begin a new era of transformation.

## Key trends

- 01 Adoption of digital transformation and intelligent manufacturing
- 02 Accelerated development of core technologies to increase self-reliance, security and reliability
- 03 Strengthening of advantages in comprehensive supply chain networks and industrial clusters

**Figure 11** Size of the digital economy, RMB trillion



Source: China Academy of Information and Communications Technology, KPMG analysis



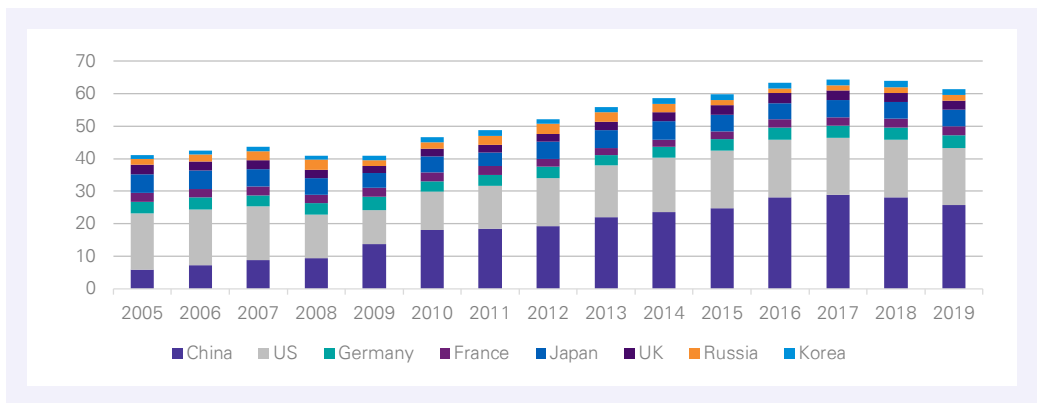
# The 'four new modernisations' will reshape the auto industry with a shift from purchase management to usage management

The auto industry plays an important role in China's economic and social development. In terms of industrial manufacturing, the value created by the auto manufacturing industry accounts for around 7% of the total value generated by the industrial sector. The auto industry has a broad industrial supply chain that covers many related industries, and therefore has a significant effect on industrial growth. In terms of its impact on the consumer market, automobile consumption accounts for nearly 30% of total retail sales of consumer goods of the 'over-the threshold' enterprises, representing a significant contribution to the retail sector. The 14th FYP period is a critical period for the transformation and upgrading of China's auto industry. During this period, we expect automobile consumption in China to continue to rise and become more mature. In addition, the market is expected to gradually accept new energy vehicles (NEVs) and shared mobility, which will facilitate access to a broader consumer base. Finally, the commercial applications of autonomous driving and other emerging technologies will accelerate. The auto industry should seize these strategic opportunities over the next five years. Going forward, the 'four new modernisations' for automobiles — electrification, intelligence, connectivity and sharing — will reshape the future landscape of the auto industry.

## Key trends

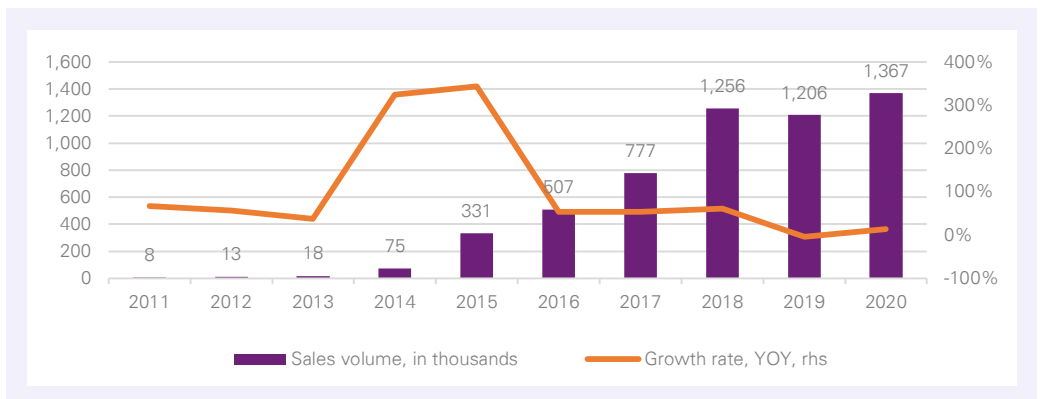
- 01 Significant increase in NEVs' market share
- 02 Rapid development of the intelligent auto industry
- 03 Significant aftermarket opportunities with the shift from purchase management to usage management

Figure 12 Vehicle sales in major markets, millions



Source: Wind, KPMG analysis

Figure 13 Sales of new energy vehicles in China



Source: Wind, KPMG analysis

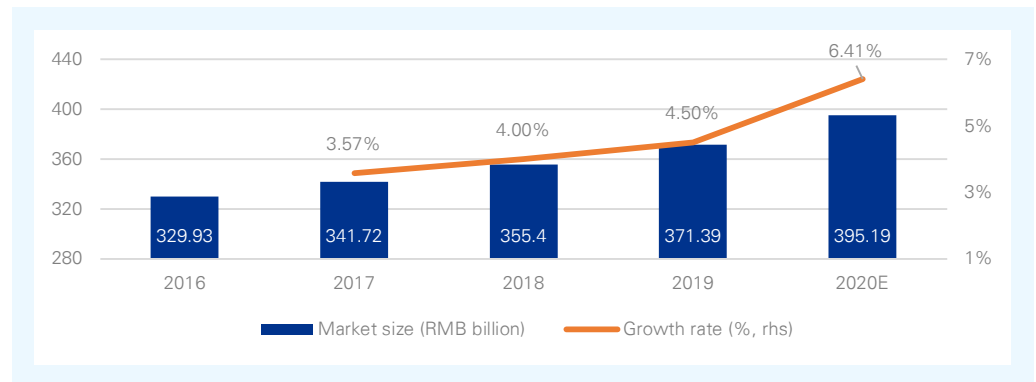
# Digital healthcare ushers in new opportunities for development

The global outbreak of COVID-19 has put the spotlight on the healthcare and life sciences industries. As a result of the pandemic, the public has been paying more attention to topics such as early warning and prevention of infectious diseases, vaccine research and development, medical equipment and online medical services. The Recommendations put forward a detailed plan for the development of the healthcare and life sciences industries in China. The plan covers a range of areas, including overall planning and reimbursement for medical insurance, the multi-tiered healthcare system, social medical services, remote medical treatment, traditional Chinese medicine and chronic disease management, providing broad development prospects for these industries.

## Key trends

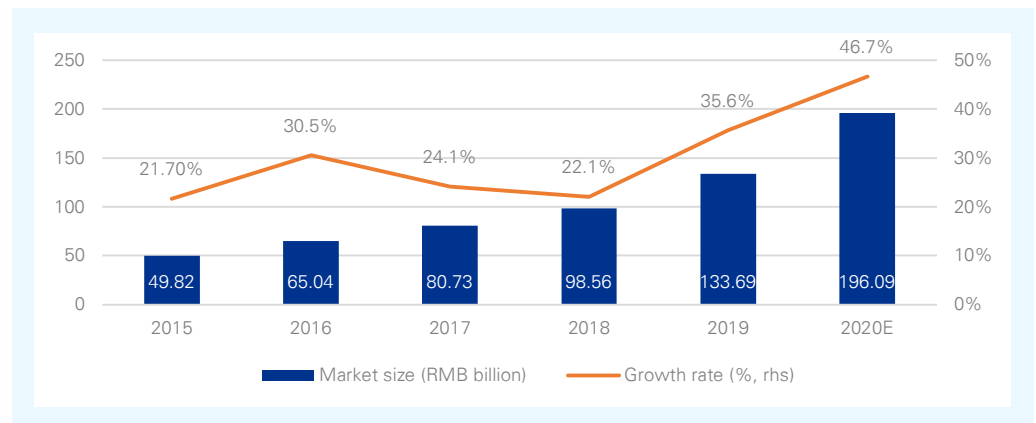
- 01 Rapid growth of the biopharmaceutical market
- 02 Strong growth potential for innovative medical device companies
- 03 Long-term positive development of the Chinese traditional medicine sector
- 04 Increased opportunities for digital primary care and community clinics
- 05 Shifting development focus of public hospitals from expansion to high quality and efficiency
- 06 Rapid growth of rehabilitation services

**Figure 14** Size and growth of the biopharmaceutical sector in China



Source: Zhiyan Consulting, KPMG analysis

**Figure 15** Size and growth of China's online medical services



Source: Analysys, KPMG analysis

# Advancing basic research and promoting enterprise-driven innovation

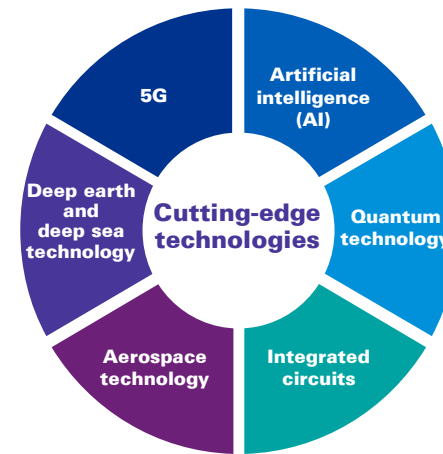


The Recommendations have made “steadfastly pursuing innovation-driven development to comprehensively shape new development advantages” the top priority for China’s social development. The 14th FYP marks the first time that a FYP has dedicated a specific chapter to technological innovation. The Recommendations emphasise that innovation should be the centrepiece of the country’s efforts to achieve overall modernisation, and scientific and technological self-reliance should serve as a support strategy for national development. Science and technology development should keep up with leading global trends, serve as a main engine of economic competition, serve the needs of the country, and benefit people’s health and livelihoods. These goals will be realised through the in-depth implementation of the strategies of rejuvenating the nation through science and education, cultivating talent, and promoting innovation-driven development. This will enable China to improve its innovation capabilities and speed up its transformation into a scientific and technological power.

## Key trends

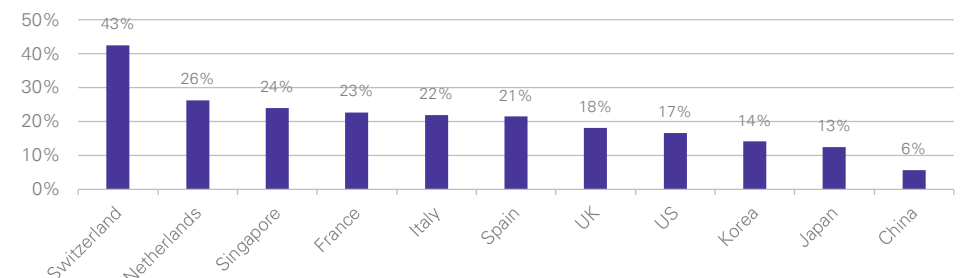
- 01 5G, artificial intelligence (AI), quantum technology and other cutting-edge technologies are in the spotlight
- 02 Business enterprises as the lead for innovation
- 03 Advancement in the field of basic research
- 04 Improvement of technological innovation system and cultivation of innovative talent

**Figure 16** Cutting-edge technologies focused by China



Source: KPMG analysis

**Figure 17** Basic research as a percentage of total R&D in major economies, 2019



Source: OECD, KPMG analysis

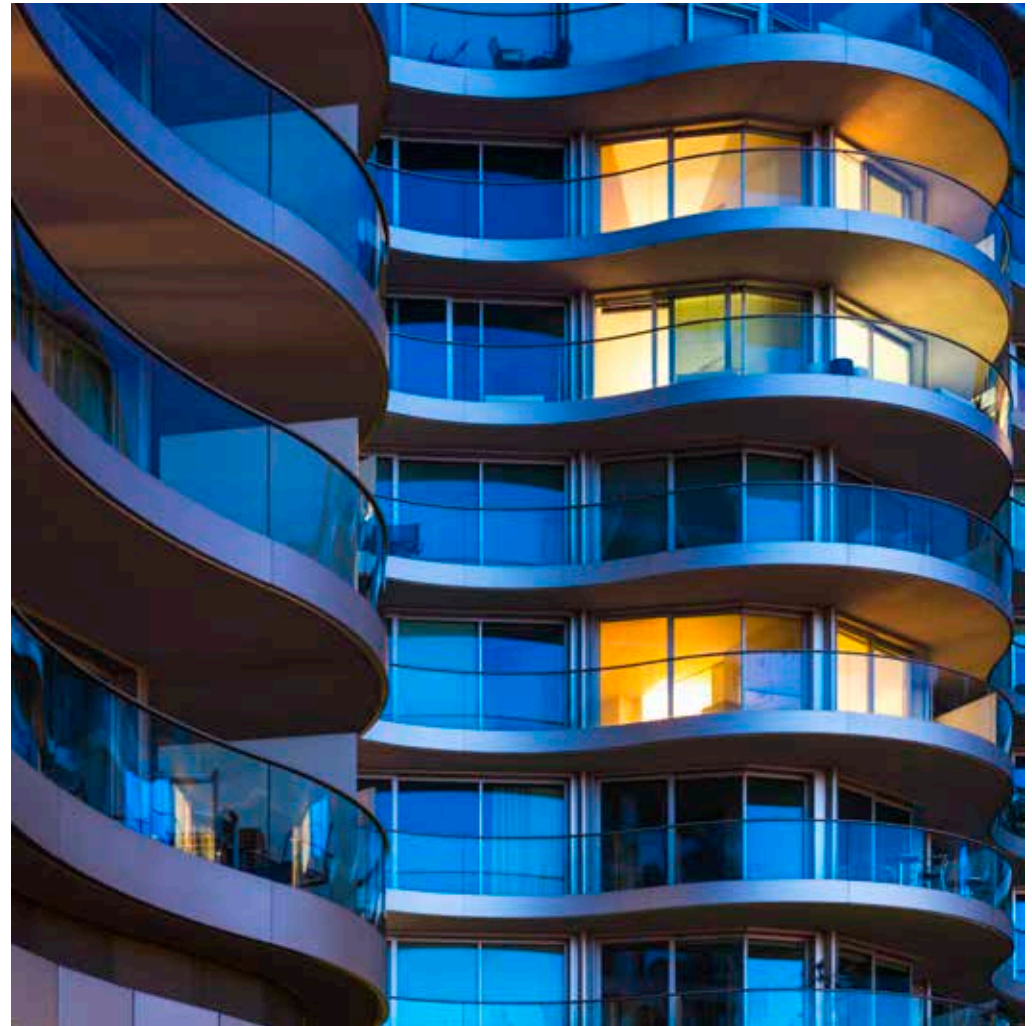
## Real estate

# Adhering to the theme of 'houses are not for speculation' to ensure the healthy development of the real estate market

The Recommendations include detailed plans for the real estate industry. The government has maintained a basic theme for the industry, which states that "houses are not for speculation, and policies shall be implemented on a city-specific basis". Moreover, the Recommendations include various new policies that aim to "promote the balanced development of the financial and real estate sectors and the real economy", "promote the healthy development of the real estate market" and "accelerate the development of the real estate service industry". Finally, the Recommendations also provide details regarding the "optimisation of the country's land use, the promotion of coordinated regional development, and the new urbanisation initiatives".

## Key trends

- 01 Prevention of financial risks in the real estate industry to ensure its balanced development alongside the real economy
- 02 Quality to become the primary focus as more real estate is built to be lived in
- 03 Increase in the supply of affordable housing and rental housing
- 04 High-quality property management to become a differentiator for developers
- 05 New urbanisation initiatives to present new opportunities



Energy



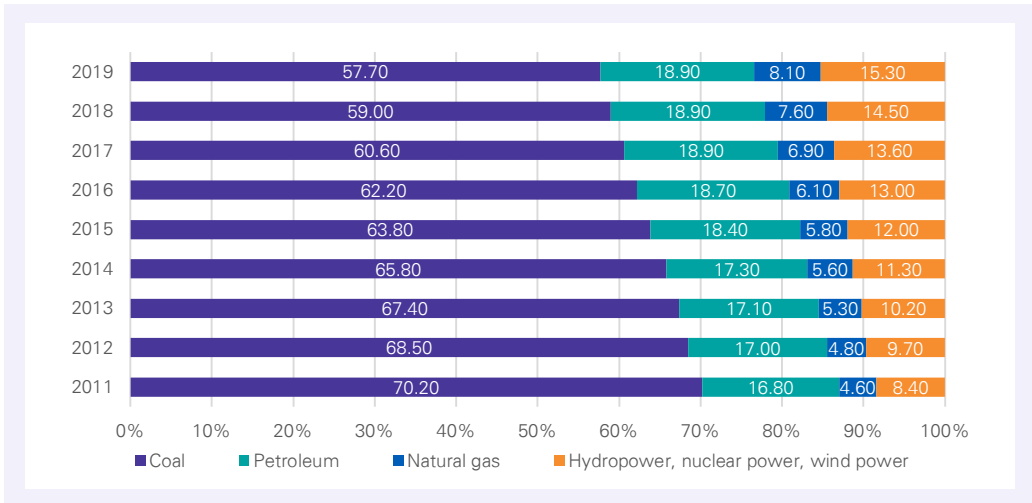
# Promoting a green and low-carbon economy and vigorously developing renewable energy

The 14th FYP attaches significant importance to the development of new energy. In the Recommendations, the key aspects of new energy planning involve strengthening the development of strategic emerging industries such as new energy resources and NEVs, accelerating the promotion of low-carbon development, facilitating the safe and efficient use of clean and low-carbon energy, supporting the areas that are well-positioned to reach peak carbon emissions, and formulating an action plan for reaching peak carbon emissions by 2030.

## Key trends

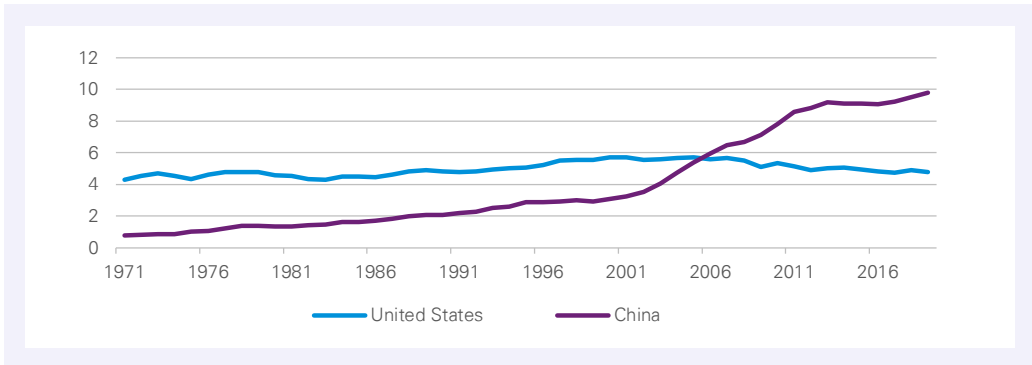
- 01 Renewable energy to become the main growth driver for energy consumption
- 02 Active promotion of smart energy
- 03 Substantive implementation of the national carbon market

**Figure 18** China's energy consumption structure from 2011-2019, %



Source: Wind, KPMG analysis

**Figure 19** Carbon dioxide emissions in China and the United States (billions of tons)



Source: IEA, KPMG analysis

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