



The 14th Five-Year Plan: Macro Trends and Opportunities

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Forward

2021 marks a special year in which China will achieve a moderately prosperous society, celebrate the 100th anniversary of the Communist Party of China and kick off its 14th Five-Year Plan (14th FYP). The 14th FYP not only focuses on China's development over the next five years but also outlines future objectives to be achieved by 2035. It is an essential document charting the direction of China's economy in the medium to long term.

The world is undergoing profound changes unseen in a century, and the COVID-19 pandemic that broke out in 2020 is still significantly impacting the global economy. At the same time, the technological revolution is altering traditional economies and industrial models, while digital transformation continues to accelerate.

China now faces a complex external environment, the long-term impacts of the pandemic and challenges of its economic transformation and upgrading. The 14th FYP outlines how the country will implement its new development philosophy within this context and create a new economic landscape as it enters a new development stage, thereby serving as a guideline for interpreting its policy orientation and understanding future trends.

In January, KPMG China released *The 14th Five-Year Plan: Sector Impact Outlook*, the first instalment of a two-part series that focuses on the 14th FYP. In this report, KPMG China adopted an industry perspective to analyse the development trends and opportunities of 10 major industries during the 14th FYP period. KPMG China is now releasing this report, titled *The 14th Five-Year Plan: Macro Trends and Opportunities*, the second instalment in the series. This report provides macro insights into the 12 most significant economic development trends expected in China over the next 5 to 15 years, based on the content of the 14th FYP. These two reports, which respectively elaborate on the 14th FYP from the sectoral and macro-economic perspectives, combine to provide companies with a full picture of China's economic development trends going forward.

In this report we will analyze the 12 most significant macro-economic trends expected during the 14th FYP period.

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Trend 01

Motivating basic research to drive cutting-edge technological innovation

Innovation is the core driver of China's high-quality development and the top priority of the 14th FYP. In particular, China will enhance basic research to generate breakthroughs in seven frontier technologies, including next-generation artificial intelligence (AI) and quantum information (see Figure 1). To this end, China will step up R&D investment and raise the proportion of basic research funding in total R&D investment from 6.2 percent to over 8 percent (see Figure 2). In addition, systematic measures will be introduced at the national level, enterprise level and talent level to strengthen support for innovation.

At the national level, China will provide better strategic guidance and targets to develop Beijing, Shanghai and the Guangdong-Hong Kong-Macao Greater Area Bay into international technological innovation hubs. Acknowledging the key role that enterprises play in innovation, the country will introduce preferential policies, such as tax reductions for R&D expenditure, to encourage more investment in this area. In terms of talent, China will focus on optimizing mechanisms and policies for scientific and technological evaluation and management to upgrade talent cultivation and performance ratings to fully stimulate a passion for innovation.

Figure 1: Pursuing breakthroughs in seven frontier technologies

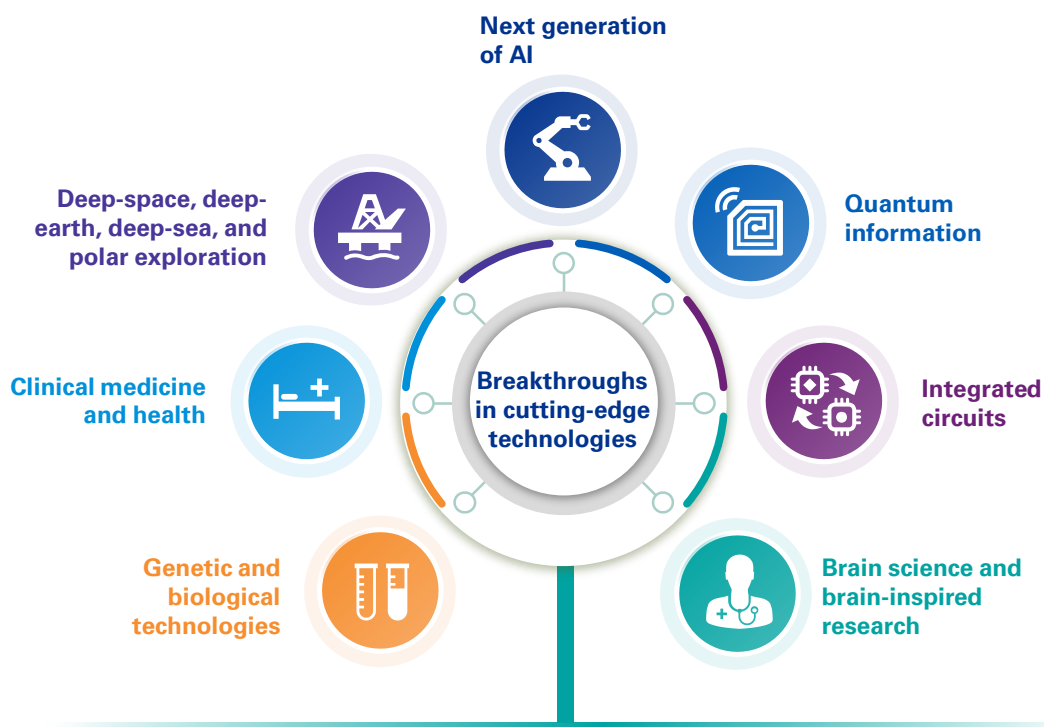
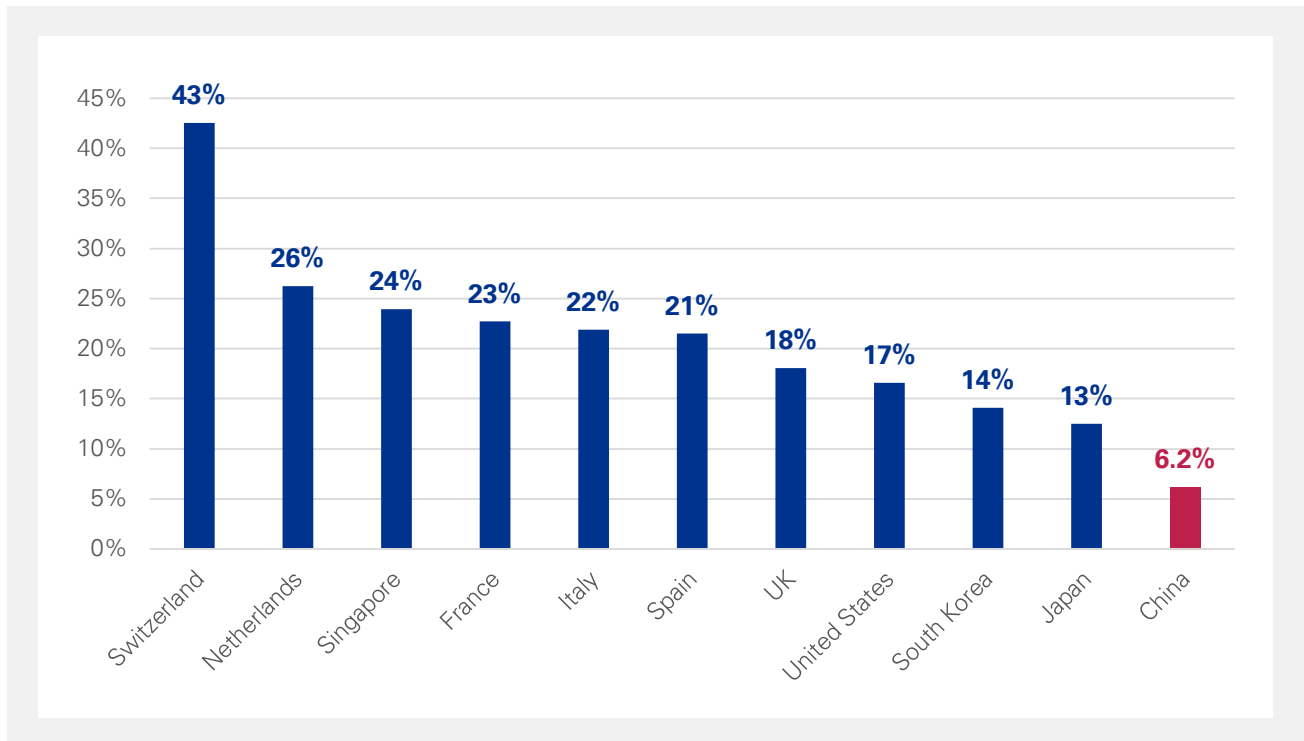


Figure 2: Basic research funding as a proportion of total research funding in major economies

Source: OECD; MOST; KPMG analysis

Note: These figures represent the latest available data from the OECD, along with China's data for 2020.



Trend 02

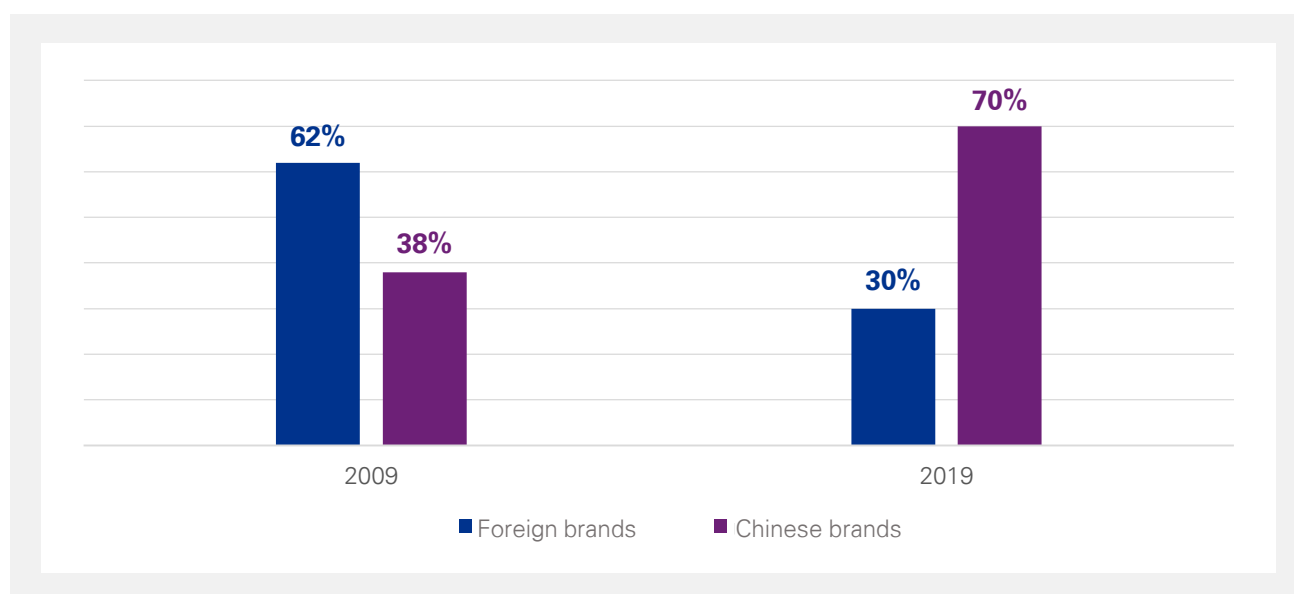
Accelerating the development of the domestic market

During the 14th FYP period, China will mainly focus on expanding consumption and encouraging investment in its effort to create a unified domestic market. To expand consumption, China needs to develop new consumption patterns while also improving traditional ones. It also needs to spur consumption upgrading and stimulate consumption in lower-tier markets.

In recent years, the increasing coverage of internet and logistics networks has turned lower-tier markets (markets in third-tier or lower-tier cities, counties, towns and rural areas) into significant consumption drivers. From 2017 to 2019, online retailing growth in rural areas was over 5 percent faster than the national average. During the 14th FYP period, consumption in lower-tier markets will be further stimulated through e-commerce and more diverse consumption patterns.

The rise of Chinese brands (see Figure 3), the diversification of service consumption patterns and the improvement of modern logistics represent remarkable developments for the consumer market, and these trends will continue to be prominent during the 14th FYP period. In terms of investment, accelerating new infrastructure construction and constantly driving digitalization and green transformation of traditional infrastructure will become key areas of focus.

Figure 3: Chinese consumers' interest in Chinese brands, 2009 to 2019



Source: Baidu; Baidu Big Data on Trendy Chinese Brands by the Research Institute of People.cn; KPMG Analysis



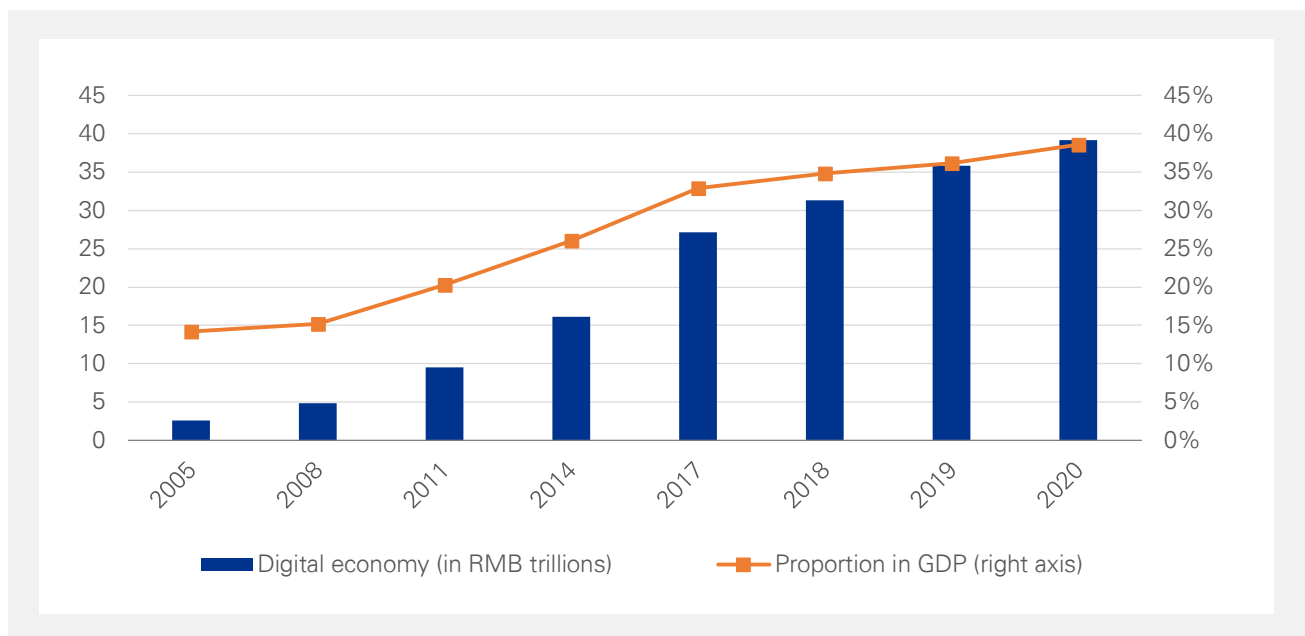
Trend 03

Shifting from the internet economy to the digital economy

In its pursuit of economic development, China has shifted its focus from the internet economy, based on the internet and mobile internet, to the digital economy, based on big data. The digital economy has turned into a critical driving force for the Chinese economy, with its size growing rapidly from RMB1.1 trillion at the beginning of the 13th FYP period to RMB39.2 trillion by 2020, accounting for 38.6 percent of China's GDP (see Figure 4).

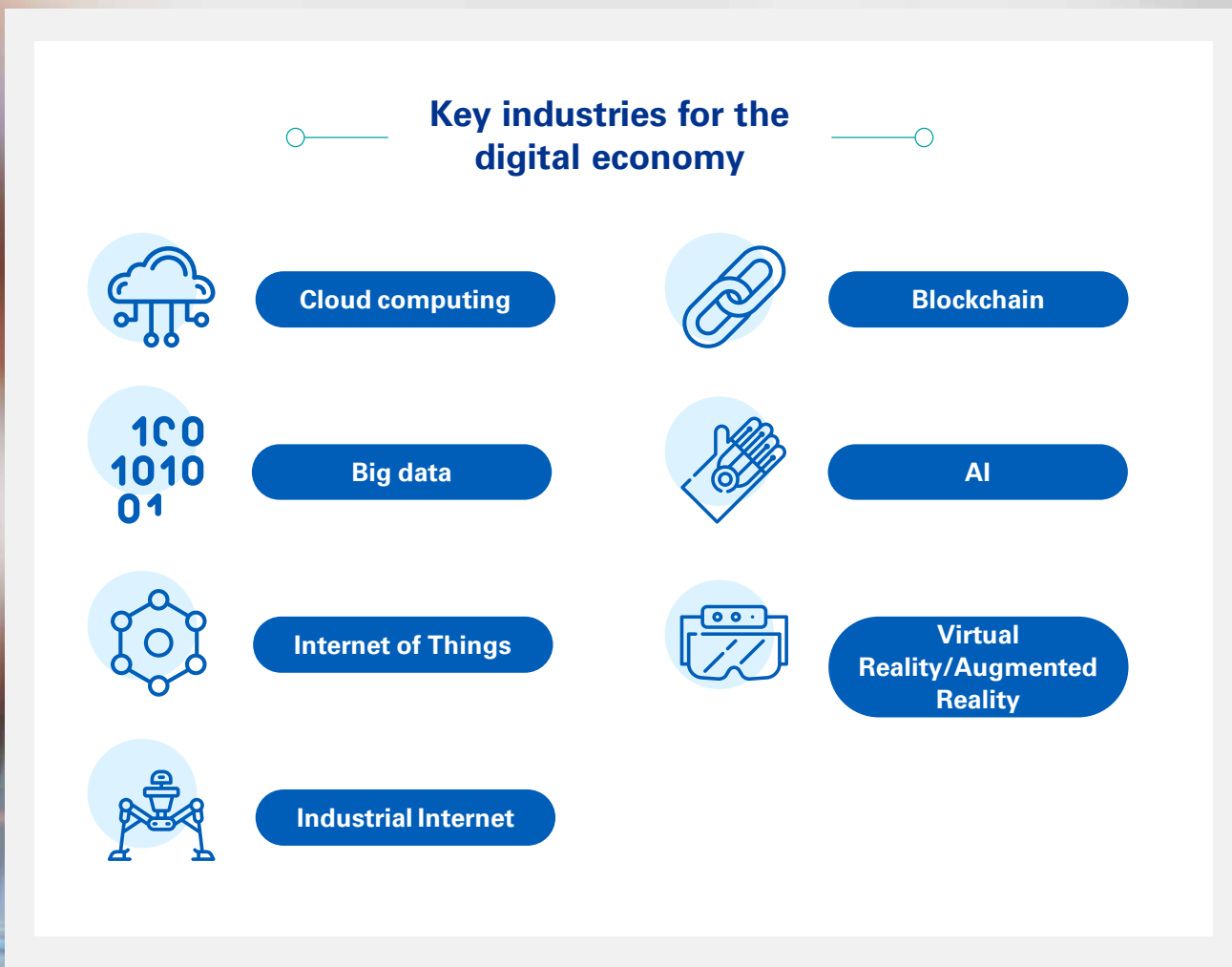
The 14th FYP, which includes a separate chapter elaborating on issues involving the digital economy, highlights seven related industries that are key to the digital economy, such as cloud computing and big data (see Figure 5). To accelerate the digitalization of traditional industries, the 14th FYP also calls for measures to “promote cloud computing and cloud services, drive big data integration and application, and enhance intelligent transformation across enterprises”. In addition, China will establish globally competitive industrial internet platforms and digital transformation centres during the 14th FYP period to help digitalize industrial parks at a faster pace.

Figure 4: Changes in the digital economy's proportion of total GDP



Source: White Paper on the Development of China's Digital Economy (2020) by the CAICT; KPMG Analysis

Figure 5: Seven key industries for the digital economy, according to the 14th FYP



Source: 14th FYP; KPMG Analysis



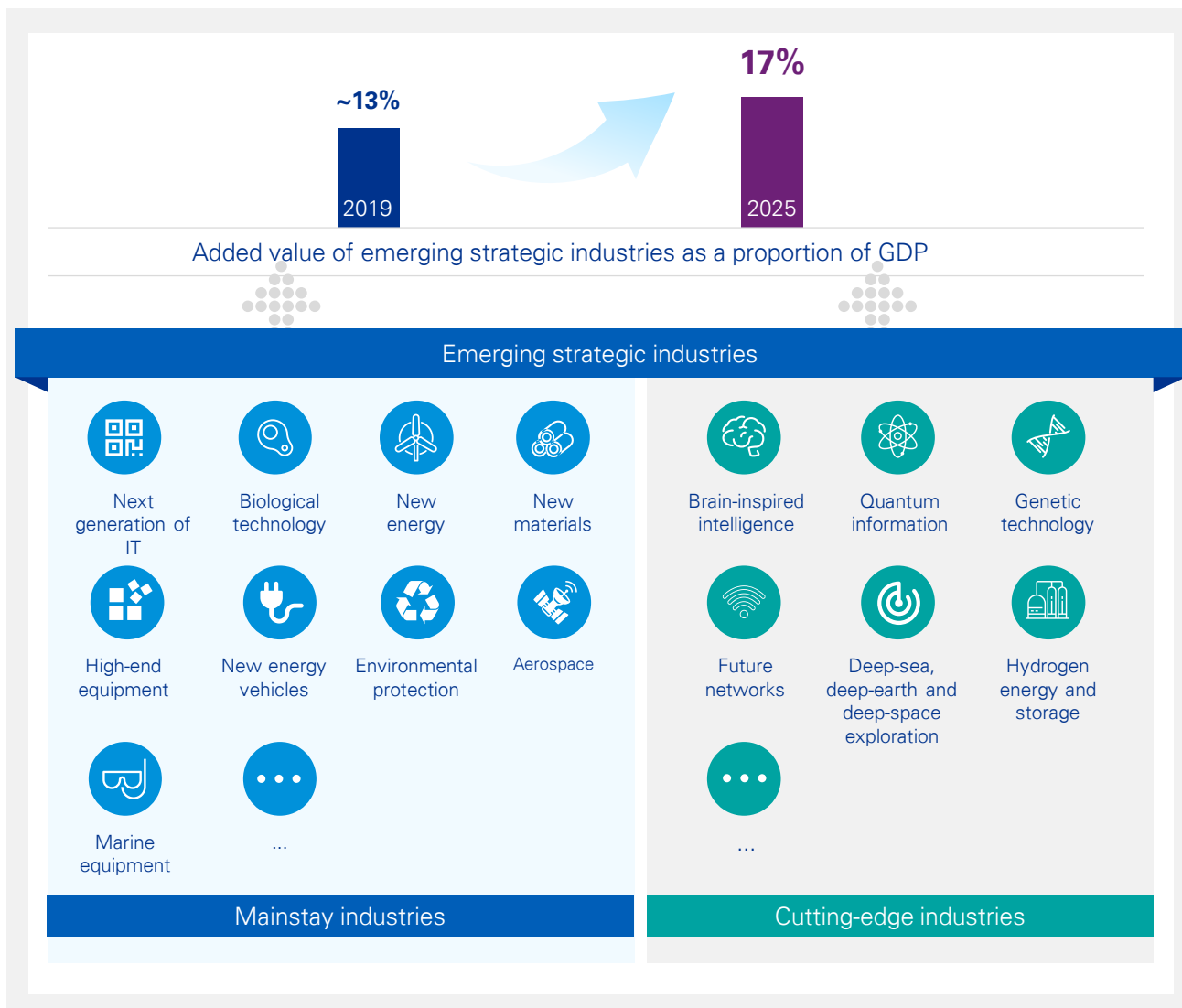
Trend 04

Growing the real economy and further modernizing industrial chains and supply chains

Growth of the real economy is a critical aspect of the country's pursuit of high-quality development. The 14th FYP proposes maintaining manufacturing's share of national GDP, demonstrating the importance of this sector. During the 14th FYP period, China will strive to strengthen its manufacturing base through the following four measures:

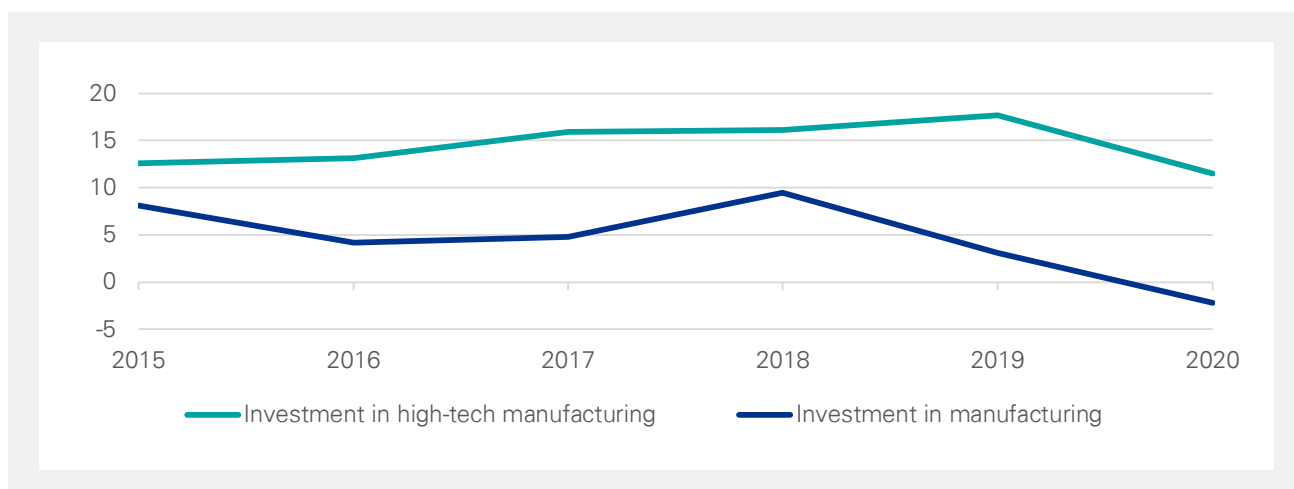
- Reshaping industrial bases and enhancing the resilience of industrial chains and supply chains.
- Stepping up efforts to establish emerging strategic industries to achieve "leapfrog" development. Emerging strategic industries will experience rapid growth. Their value added is expected to exceed 17 percent of GDP by 2025 (see Figure 6).
- Making manufacturing greener, more intelligent and higher-end. Despite the impact of the COVID-19 pandemic, China's investment growth in high-tech manufacturing last year remained at over 10 percent (see Figure 7), which is much higher than that of the manufacturing industry overall.
- Enhancing connectivity between the service and manufacturing sectors to raise the position of China's manufacturing industry in the global value chain.

Figure 6: Strategic emerging industries



Source: 14th FYP; *In-depth Implementation of the Innovation-driven Development Strategy*; KPMG Analysis

Figure 7: Growth of investment in manufacturing and high-tech manufacturing, YOY, %



Source: White Paper on the Development of China's Digital Economy (2020) by the CAICT; KPMG Analysis

Trend 05

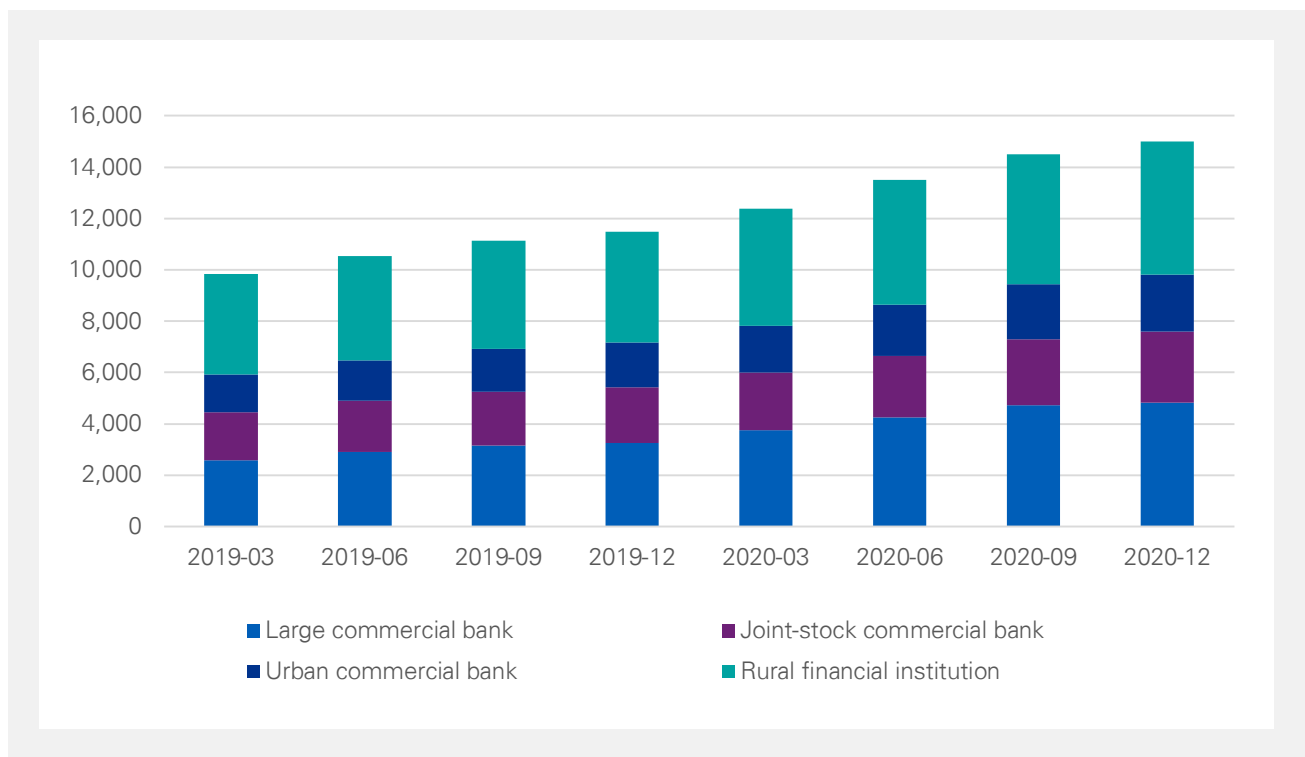
Developing a modern financial system

The primary mission of the financial industry is to provide better support and services to the real economy. The 14th FYP specifically calls for the financial industry to play a bigger role in promoting innovation and helping the manufacturing industry reduce costs and financial burdens. With respect to inclusive finance, the financial sector's primary mission is to offer greater financing support for medium, small and micro enterprises.

In its 2021 Government Work Report, China urged large commercial banks to increase loans to small and micro enterprises by over 30 percent. New loans granted to such enterprises in 2021 are expected to amount to RMB1.45 trillion, which will provide significant stimulus for these companies (see Figure 8).

In China's capital markets, the proportion of direct financing including equities and bonds remains relatively low. In the future, China will focus on building a multi-level capital market to raise this proportion, encourage the comprehensive adoption of the registration-based IPO system and set up a standardized delisting mechanism. In addition, improving the modern financial regulatory system will be another major task during the 14th FYP period.

Figure 8: Quarterly balance of loans to small and micro enterprises, by bank type (in RMB billion)



Source: Wind; KPMG Analysis

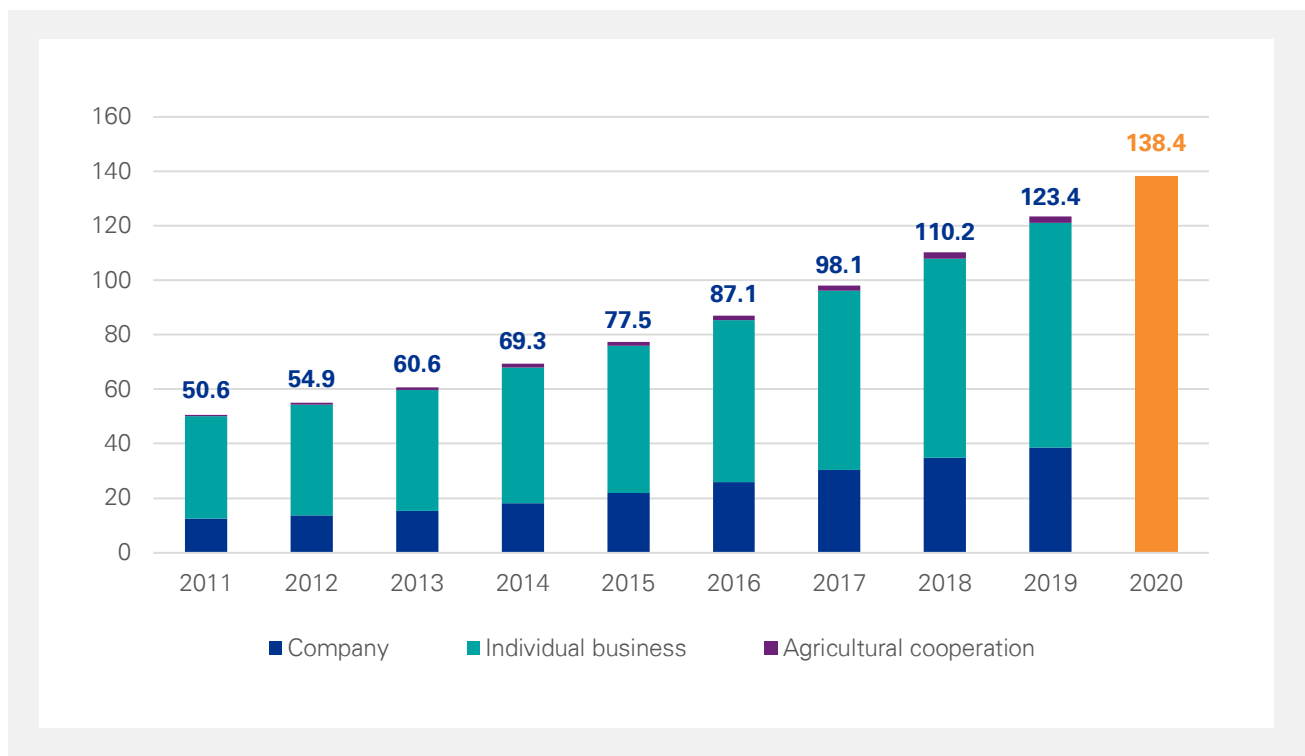
Trend 06

Mobilizing market entities

By the end of 2020, China had a total of 138 million registered market entities (see Figure 9). Maintaining their business confidence is crucial to China's economic development. During the 14th FYP period, China will focus on deepening reforms in the following three major areas to boost the joint development of various market entities:

- improving the landscape of the state-owned economy, optimizing the corporate governance at state-owned enterprises, and enhancing their competitiveness and creativity;
- improving the business environment for private enterprises and encouraging technological innovation;
- optimizing the online platform economy's governance system to prevent the disorderly expansion of capital and to promote the healthy development of private enterprises in the online platform economy.

Figure 9: Number of registered market entities in China (in million)



Source: Wind; KPMG Analysis

Trend 07

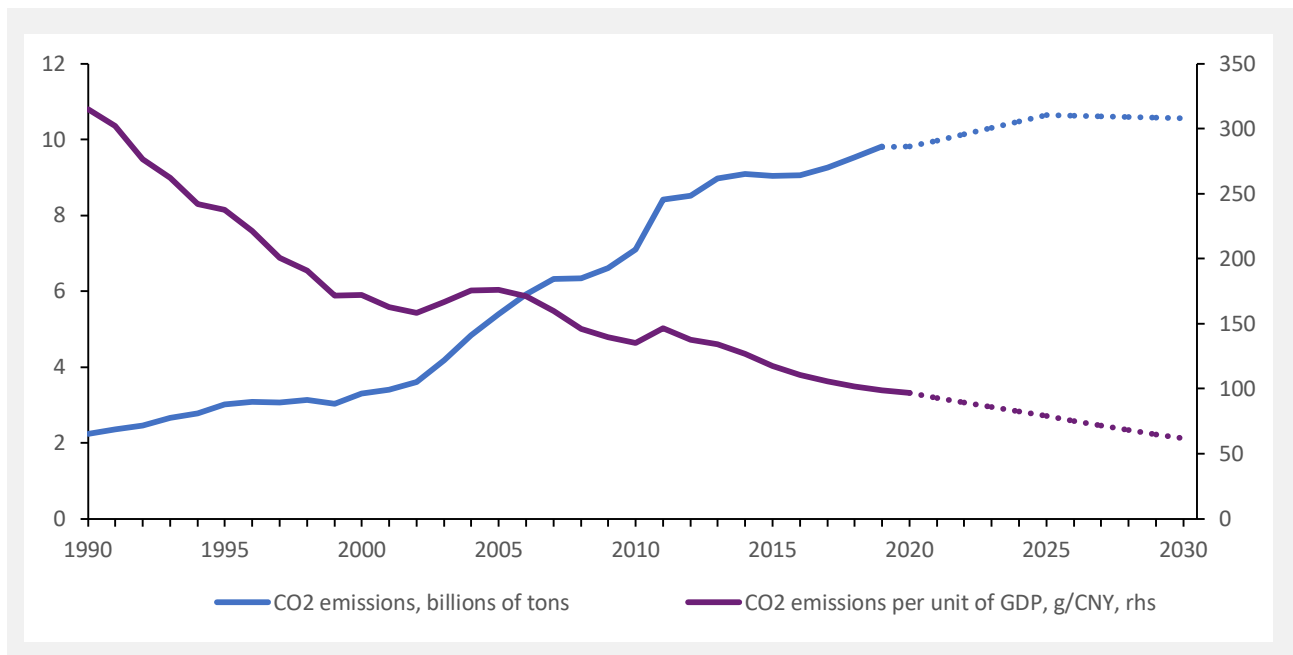
Reducing carbon emissions to cultivate a greener economy

According to its green economy roadmap, China will achieve peak carbon emissions before 2030 and carbon neutrality before 2060. To control both the intensity and volume of carbon emissions, the country will explore non-fossil energy while keeping a balance between economic growth and reductions of carbon emissions. Based on the 14th FYP's objective of reducing carbon emissions per unit of GDP by 18 percent by 2025, as well as the objective announced by China at the UN Climate Ambition Summit on 12 December 2020 of reducing carbon emissions per unit of GDP by 65 percent from 2005 to 2030, we estimate that China's carbon emissions per unit of GDP will decline from around 100g/RMB in 2020 to 79g/RMB by 2025, and further decline to 62g/RMB by 2030 (see Figure 10).

To achieve the 2030 and 2060 carbon emission objectives, investment on a massive scale, amounting to hundreds of trillions of renminbi, will be required, which will make green finance a lucrative sector. Favourable national policies and industrial innovations have helped boost China's green finance sector in recent years. People's Bank of China (PBOC) statistics show that China's green loan balance at the end of 2020 amounted to approximately RMB12 trillion, the largest in the world (see Figure 11), while its green bond balance ranked second at RMB813.2 billion. The 14th FYP clearly states that the development of green finance should be encouraged. In addition, it calls for measures to construct a standard green finance system, enhance information disclosures, add green financial assets to financial institutions' portfolios and encourage international cooperation.



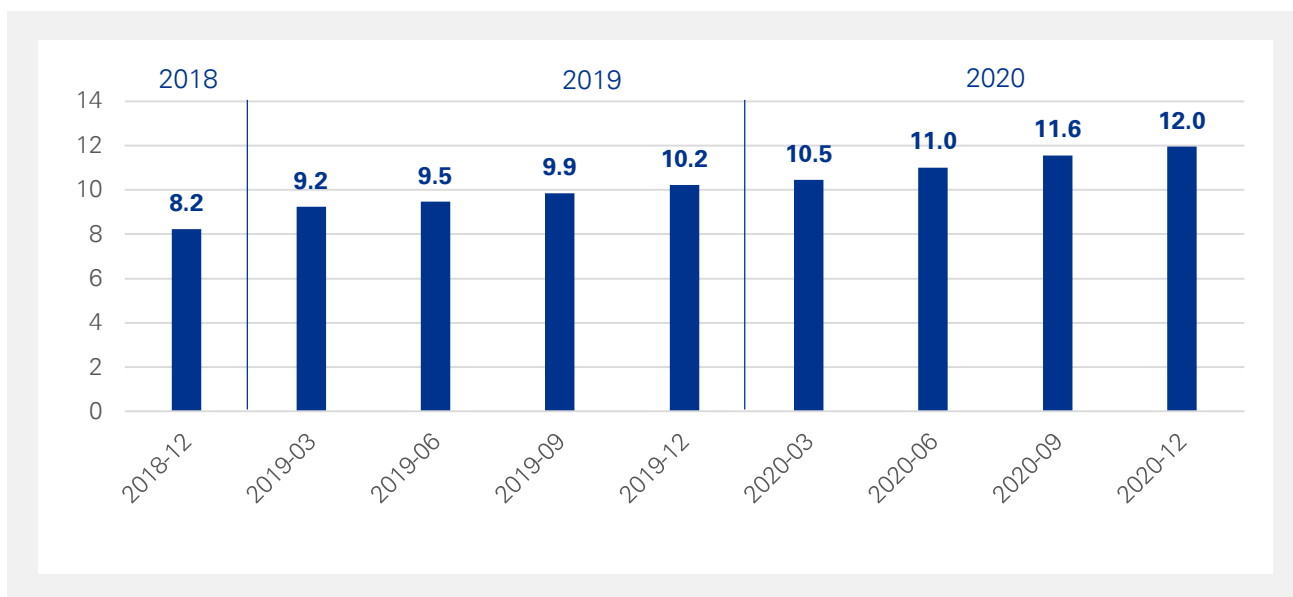
Figure 10: China’s total CO2 emissions and CO2 emissions per unit of GDP



Source: IEA; Wind; KPMG Analysis

Note: CO2 emissions per unit of GDP were calculated based on GDP in 2020. The statistics for the period from 2020 to 2030 are estimates.

Figure 11: Quarterly loan balance dedicated to green economy , in RMB trillion



Source: Wind; KPMG Analysis

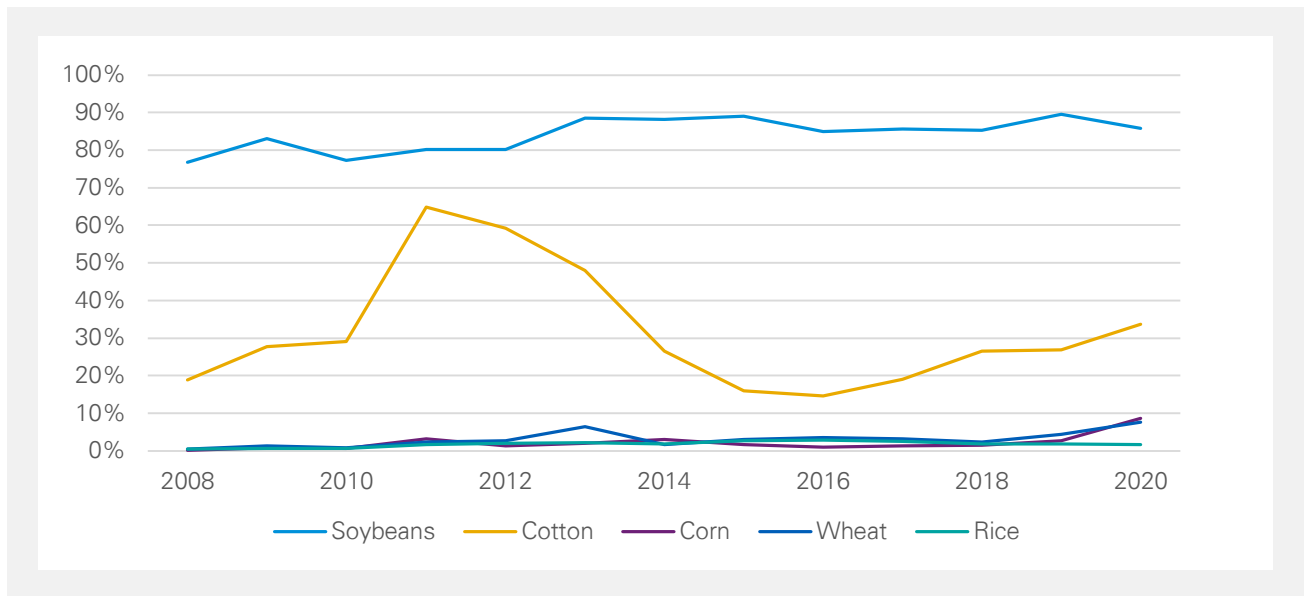


Trend 08

Ensuring national security

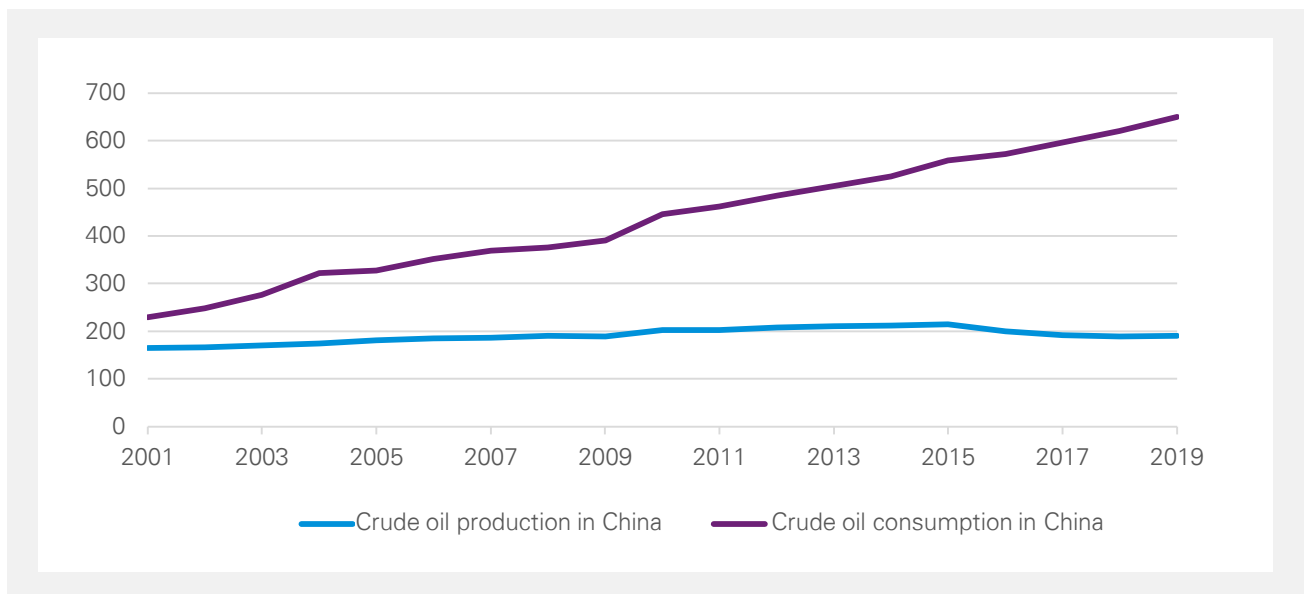
The 14th FYP is the first to include a special chapter on coordinating development and security. This chapter stresses the importance of the security of China's food supply, energy security and financial security, as well as public security with respect to production safety, and food and drugs safety. Overall, these sections call for improving the country's capability to address various risks.

In terms of food supply, China has achieved self-sufficiency with regard to crops, such as rice, wheat and corn; however, it is still heavily dependent on imports for certain agricultural products such as soybean and cotton. In 2020, China's import dependence stood at 33.7 percent for cotton and as high as 85.8 percent for soybeans (see Figure 12). Oil and gas security is also an important focus. As China's oil and gas consumption continue to increase, its dependence on crude oil and natural gas imports have exceeded 70 percent and 40 percent, respectively, in 2019, making China the world's largest oil and gas importer (see Figure 13). In its next stage of development, the country will aim to stabilize food production, diversify sources of imported oil and gas, promote safe production and tighten food security regulation.

Figure 12: China's dependence on major agricultural product imports

Source: Wind; KPMG Analysis

Note: Import dependence is indicated by import volume as a proportion of total domestic consumption.

Figure 13: Growth in crude oil consumption vs. production in China (in million tons)

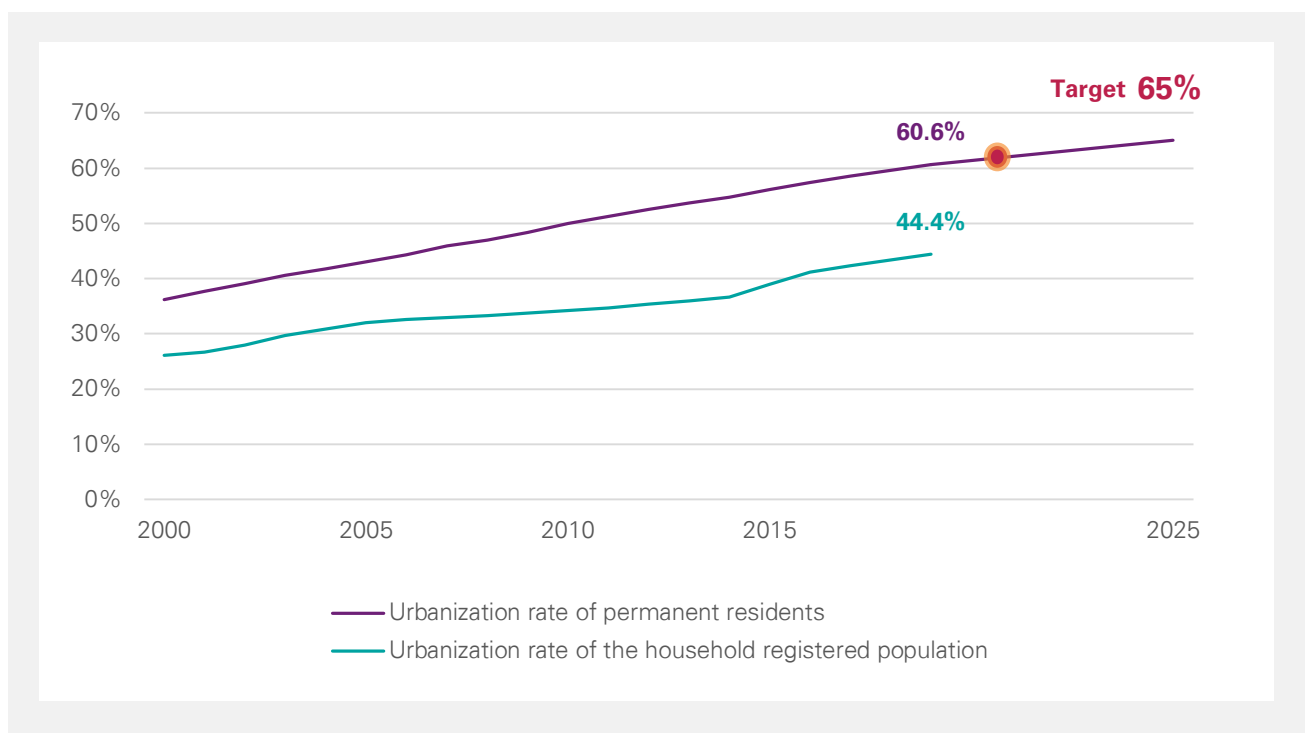
Source: Wind; KPMG Analysis

Trend 09

Promoting new urbanization

China will continue to implement its new people-centric urbanization strategy, which aims to achieve an urbanization rate of 65 percent by 2025 with respect to its permanent resident population (see Figure 14). China will also promote the reform of the household registration system to turn rural residents into urban residents more quickly, thereby expanding consumption and creating a significant domestic market. The 14th FYP states that city clusters and metropolitan areas serve as the major leverage for new urbanization. In this regard, the Beijing-Tianjin-Hebei region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, the Middle Yangtze River city cluster and the Chengdu-Chongqing city cluster, along with the Hainan Free Trade Port, are expected to become the engines for the “5+1” regional economic growth model (see Table 1).

Figure 14: Urbanization rate of permanent residents and urbanization rate of the household-registered population



Source: Wind; KPMG Analysis

Table 1: Sizes of the “5+1” city clusters (2019)

	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Middle Yangtze River City Cluster	Chengdu-Chongqing City Cluster	Hainan Free Trade Port	Total of the “5+1” city clusters	China
Area (square km)	225	355	56	326	240	35	1,238	9,600
Population (million)	116	227	73	126	101	9	653	1,400
Population density (people/square km)	517	640	1,287	388	420	267	527	146
GDP (USD billions)	1,254	3,439	1,682	1,332	943	77	8,727	14,974
Per capita GDP (USD)	10,781	15,141	23,153	10,537	9,364	8,191	13,371	10,259

Source: official statistics released by provinces and cities on economic and social development; KPMG Analysis

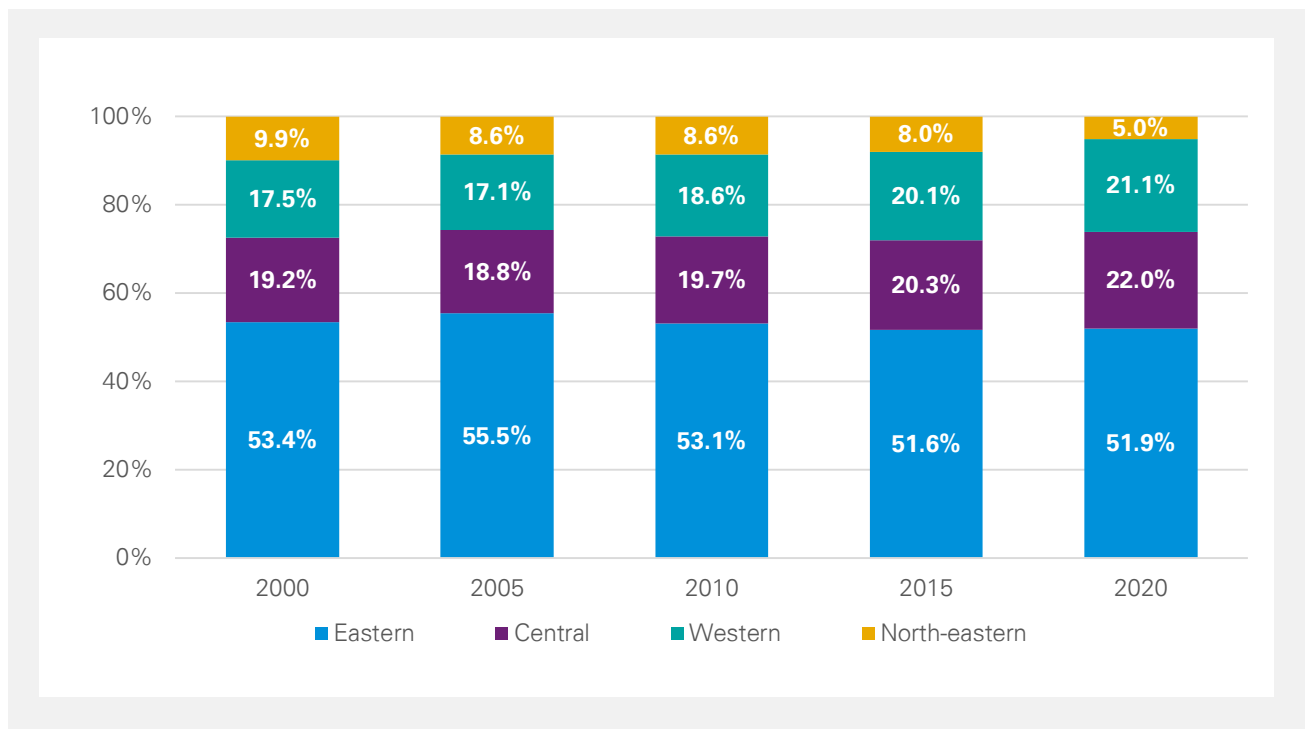
Trend 10

Promoting coordinated regional development

China is focusing on coordinating regional development. The country has built a regional development pattern based on its eastern, central, western and north-eastern regions. In addition, five major regional development strategies have been leading China's regional development: the Beijing-Tianjin-Hebei region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Economic Zone and the Yellow River Valley. Under these strategies, the regional development gap has been narrowing in the country (see Figure 15).

During the 14th FYP period, China's regional development strategy will specifically highlight technological innovation as a driving force for the economy in the Beijing-Tianjin-Hebei region, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta, as well as the construction of transportation hubs and the conservation of ecosystems in the Yangtze River Economic Zone and Yellow River Valley (see Table 2). In addition, the 14th FYP emphasizes that the eastern, central, western and north-eastern regions should fully leverage their location advantages to build multi-level inland and coastal opening-up platforms. Since China has a long coastline, vast sea area and rich marine resources, it also boasts a promising marine economy.






Figure 15: Economic proportions of the four regions of China



Source: Wind; KPMG Analysis



Table 2: Major development strategies concerning the five regions during the 14th FYP period

Key regional strategies	Beijing-Tianjin-Hebei	Guangdong-Hong Kong-Macao Greater Bay Area	Yangtze River Delta	Yangtze River Economic Belt	Yellow River Basin
 Innovation	●	●	●		
 Transport hub	●	●	●	●	
 Environmental protection	●		●	●	●
 Public services	●	●	●		
 Culture and tourism				●	●

Source: 14th FYP, KPMG Analysis

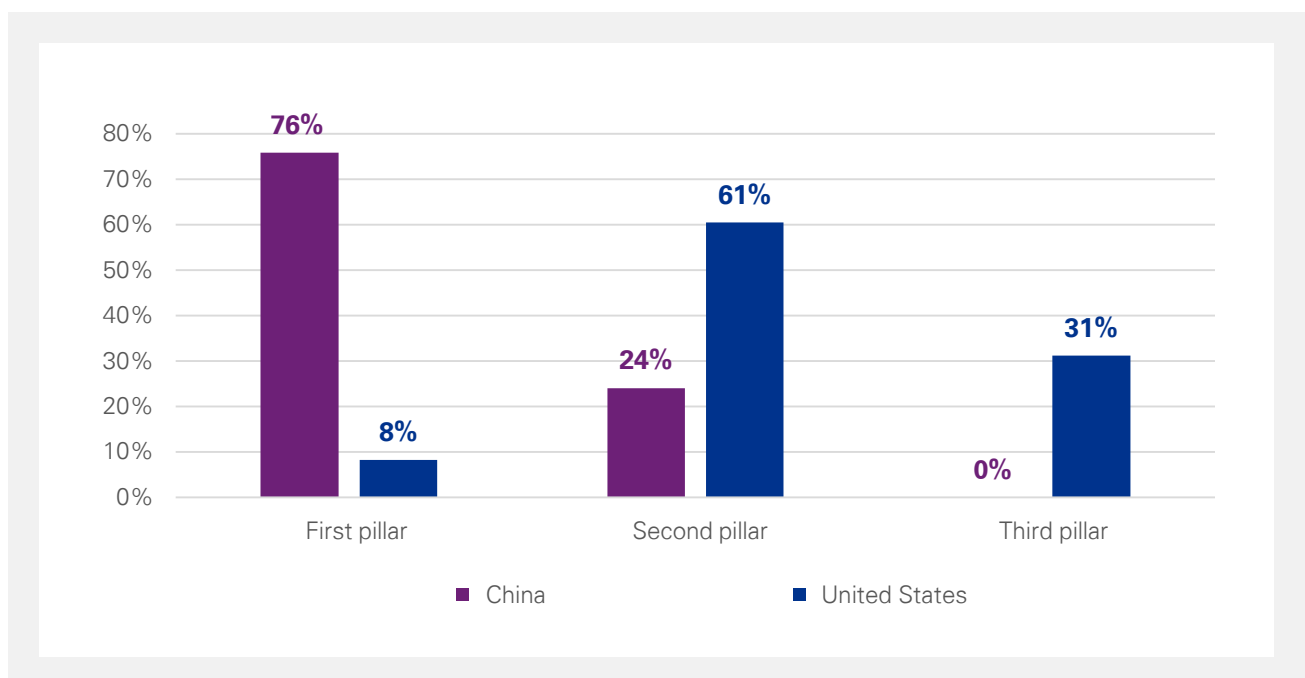
Trend 11

Population growth and people's livelihood are at the top of government's agenda

Over one-third of the indicators specified in the 14th FYP are associated with people's livelihood and welfare, covering employment, income, education, health care, senior care and other areas. Specifically, the indicators require enhancing the employment prioritization strategy to keep the urban unemployment rate under 5.5 percent, increasing the quality and fairness of education by more properly allocating educational resources, and leveraging the combined efforts of various fields such as R&D, diagnostics and treatment to improve the health care system.

During the 14th FYP period, China will enter a stage of moderate aging as over 14 percent of its population will be 65 years or older. Responding proactively to population aging has become a national strategy, which will significantly accelerate the growth of inclusive senior care services and the development of a multi-level social security system. Currently, China's pension system is supported by three uneven pillars¹. In 2019, the first pillar offered 70 percent of support, and the second less than 30 percent, with the third being almost negligible. In comparison, pension systems in developed countries such as the United States have been commercialized, with the second and third pillars offering major support (see Figure 16). China is in urgent need to further commercialize its pension system to achieve greater balance and sustainability.

Figure 16: Proportions of pension system pillars in China and the United States, 2019



Source: MOHRSS; CASS; KPMG Analysis

Note: The first pillar of China's pension system includes the basic pension fund for urban workers and urban and rural residents, as well as the national pension reserve fund.

¹ 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)

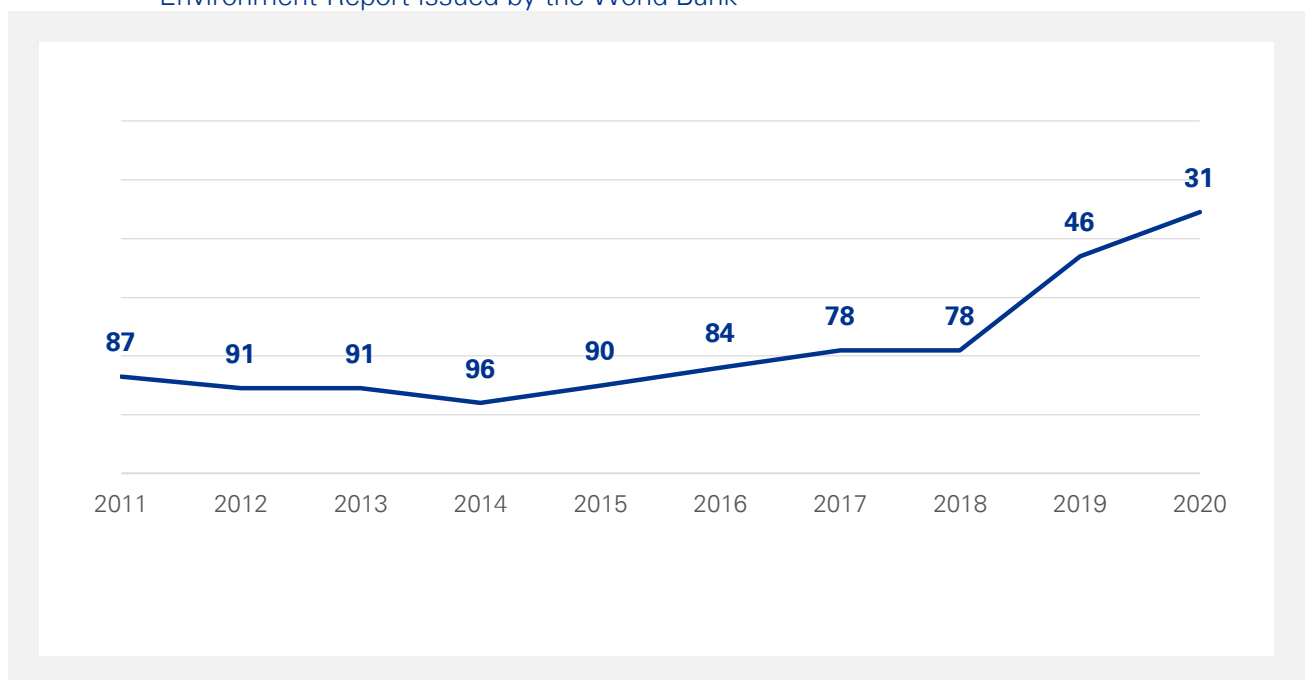
Trend 12

Achieving higher-level opening-up

China has recorded numerous achievements in its efforts to further open up its economy. Currently, the Foreign Investment Negative List has been reduced to 33 restricted investment types. The country has achieved a freer flow of factors of production such as goods and capital, and the business environment has been significantly improved (see Figure 17). The 14th FYP requires opening-up in more areas and sectors, and it also calls for opening-up to be based on rules and related institutions.

To this end, as an important means to explore opening-up based on rules and related institutions, free trade zones and free trade ports will be granted greater autonomy with respect to reform. Meanwhile, the Belt and Road Initiative will continue to engage enterprises as the major participants while operating projects based on market demands. Furthermore, China will more actively work with the rest of the world to reform and develop the global governance system, and the country will continue to promote regional economic cooperation.

Figure 17: China's ranking continued to improve over the years in the Annual Global Business Environment Report issued by the World Bank



Source: World Bank; KPMG Analysis

The next few years will be a critical period for China's economic development. By better understanding the 14th FYP, companies can gain insights into the future of the country's economic trends and market opportunities. Going forward, we hope that high-quality businesses across industries will seize the historical trends described in the 14th FYP and work toward a better and brighter future.

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