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# 14<sup>th</sup> Five-Year-Plan and China's next stage of modernization: context and strategic shifts for Swiss business

*SwissCham, SwissCham HK and SCCC joint webinar – 12<sup>th</sup> April 2021*

## Contact

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# Sinolytics – a European research-based consultancy entirely focused on China

## Profile

- Founded in 2017, Sinolytics is a client-serving, research-based consultancy with offices in **Berlin, Beijing and Zurich**
- Uniquely blending **in-depth research** with management consulting approach to **problem solving**
- Operating at the **nexus of business and policy** and analyzing **China's political economy**, Sinolytics advises companies from across business sectors and functional areas
- **50+ clients**, including some of the largest and most respected foreign companies operating in China

## Key expertise areas



**Macro-, industrial and S&T/innovation policies**  
14th FYP, automotive, S&T cooperation, 5G/new infrastructure



**China's digital economy and digital transformation**  
Digital platforms, valuetization of data, AI, startups/VC



**Market governance and regulatory compliance**  
CLS encryption/PIP/MLPS 2.0/x-border, CSCS, environment



**Social policies: welfare and domestic consumption**  
Health, pension, urbanization, rural economy and labor



**Finance, geoeconomics (trade/investment) & geopolitics**  
Financial opening-up, BRI, RCEP, tech decoupling, EU-China



**Public and Governmental Affairs (PGA)**  
Structures, strategy, stakeholder analysis, network support

## Approach

**Primary source and Chinese-language research**

**Problem-solving and developing tailored solutions**

**Flexible delivery formats: strategies, reports, workshops**

**Depth in content, while strong in contextualization**

**Extensive expert network and research partners**



# Today's Sinolytics representatives

**Markus Herrmann**  
*Director*



- Government affairs strategies
- Economic, trade and financial policies
- Public sector cooperation
- Sino-Swiss relations

**Tiffany Wong**  
*Consultant*



- Geopolitics and decoupling
- Industrial policies
- Digital economy
- Government affairs strategies

**Dr. Jost Wübbeke**  
*Director*



- Automotive policy
- Climate and environmental policy
- Cybersecurity
- Industrial policies and MIC25

**Martin Catarata**  
*Analyst*



- Industrial policies
- S&T/innovation policies
- BRI and geo-economics
- China's SOEs

**Jingwen Tong**  
*Consultant*



- Social and health policies
- Sino-European partnerships
- Market governance
- High-tech parks and PFTZs

**Key expertise areas**

# New Sinolytics Primer: "China's financial opening-up and Sino-Swiss financial cooperation"

## China's financial opening-up and Sino-Swiss financial cooperation

**Focus of this deck:** Context, trends and policy factors influencing Switzerland-based institutional investors' financial engagement with China

March 2021

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## Sinolytics' interdisciplinary Finance team specialized in China's financial policies



**Markus Herrmann Chen**  
陈瑞华  
Managing Director

Markus is an experienced advisor to European corporate and public sector clients with expertise in China's foreign economic policy including trade policy and the Belt and Road Initiative, financial policy, S&T innovation policies as well as public / government affairs strategies. Markus holds a MLaw from universities of Bern and Geneva focusing on international public and WTO law and a CAS from ETHZ in public policy.



**Bin Yan**  
严斌  
Consultant / CFA

Bin is a specialist on the financial sector of China. He combines strong expertise in the Chinese financial markets and work experience in European companies. Prior to Sinolytics, Bin worked in the PE area of China as an investment manager for eight years, mostly in China New Enterprise Capital. Previously he worked in the transaction dep. of PwC Beijing office. Bin holds a B.A. in Accounting from Peking University and a B.A. in Banking & Finance at the University of St. Gallen.



**Tiffany Wang**  
黄亨嘉  
Consultant / IR with focus on geopolitics and PGA

Tiffany is specialized in China's geopolitics, digital economy, and technology markets and advises clients on public and government affairs. She retains a focus on China's grand strategy and foreign policy, as well as related issues such as the U.S. - China tech sphere bifurcation. Tiffany holds an M.A. from Johns Hopkins in International Economics and China Studies and a B.A. from the University of Chicago in Political Science and International Relations.



**Luisa Kinzias**  
梦洁  
Project Leader / Economist

Luisa is a specialist on Chinese market regulation. She is leading Sinolytics projects on enabling companies dealing with big-data enabled market regulation (Corporate Social Credit System). She also observes the current trends in China's FinTech industry as well as the role-out and implications of China's digital currency. She holds a M.Sc. in Economics. During her studies she spent one year studying Economics and Chinese at the Nanjing University.



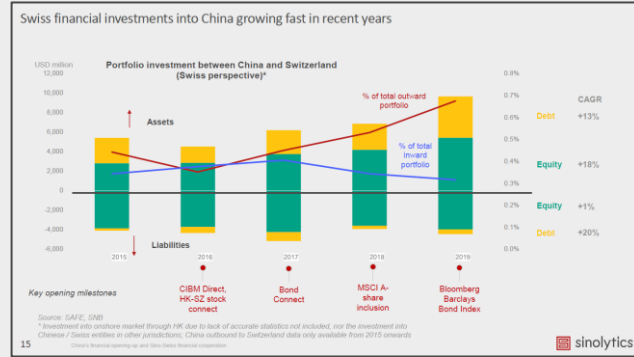
**Haijin Wang**  
王海林  
Consultant / CFA Level II Candidate

Haijin has extensive experience researching and analyzing industrial policy and corporate performance, especially in the areas of energy policy, sustainability and environmental protection. Haijin obtained his B.A. in Economics (major in Finance) from Southwestern University of Finance and Economics and holds an M.A. in Political, Legal, and Economic Philosophy from University of Bern. He has passed CFA level I and also studied Global Legal Studies at University of Luzern.



**Sishi Xie**  
谢思诗  
Analyst / Economist

Sishi tracks and analyzes Chinese central and provincial policies relating to China's global logistics ambitions, deriving insights on the interlinkages of Chinese policies and company activities on the ground. She also researches Chinese market regulations and government rating mechanisms, supporting international companies to maintain a good CS&C performance.



### Understanding China's policy and regulatory factors at core of informed investment strategies

**Investor acceptance of China's financial market grows ...**

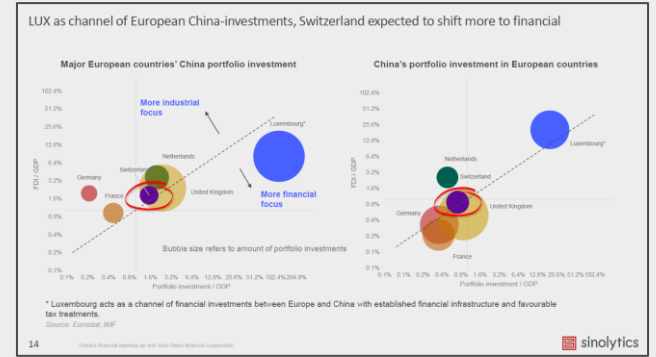
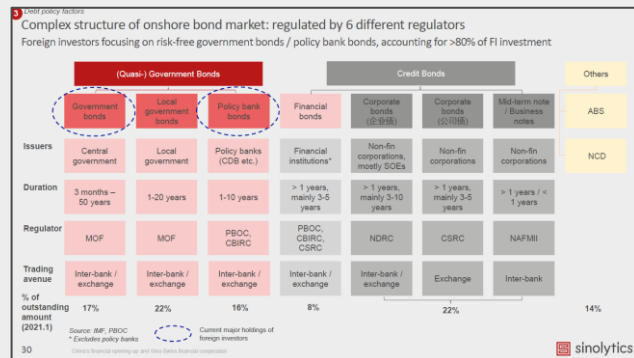
- International index inclusion
- China to be added to FTSE global bond benchmark in 2021
- MSCI increases weight of China A Shares in Indexes to 20%

**... stressing a set of key rationales**

- "Low return correlation with global markets"
- "High interest rate differential compared with developed markets"
- "Chances to participate in China's economic growth"
- "Extra return opportunities created by large presence of retail investors"

**However, China's general and financial policymaking as well as regulations remain crucial to understand the investment context**

- China's leaders' shifting view on the financial system
- Policy motives towards financial opening-up
- Future role of HK in China's financial and economic system
- Public economy, industrial policy and SOEs
- Policy impact of SOE defaults
- Government's mindset behind more regulations on Fintech
- What is financed with the capital market?



### 10 QFIIs and 12 Bond Connect registrants access China's capital market from Switzerland

Access to	QFII & RQFII	Stock Connect	CIBM Direct	Bond Connect
Eligible foreign investors	All listed shares and bonds, both in CIBM and exchange market	Eligible A-shares in Shanghai and Shenzhen stock exchange	All FI cash bonds	Cash bonds in CIBM via electronic platform
Currency	FX converted to onshore RMB	Offshore RMB, HKD, USD	FI account for 2% of total CIBM transactions	Onshore/offshore RMB
Swiss/foreign participation	10 out of 558 QFII are registered in Switzerland	Northbound turnover for Shanghai and Shenzhen of similar size	12 out of 633 registered companies with Swiss background, Jan 2021	12 out of 633 registered companies with Swiss background, Jan 2021

### 4 key business models observed among European financial services to tap opportunities in China

	"Universal player"	"Specialist"	"Partnership-approach"	"Offshore investor"
<b>Banking</b>	UBS: Full business lines (WFCE) with all entities wholly owned or controlled, under holding company in China	UBS: Same for UBS and CS: Focus on WM (WFCE) investment banking (controlled) and AM (JV)	UBS: Full business lines (WFCE) in commercial banking (control-over client)	LB&W: Rep office in Shanghai (no approval in opening branches only in 63,2021)
<b>Insurance</b>	Swiss Re: Full lines (L&H, P&C, Insurance AM) with all entities wholly owned or controlled, under holding company in China	ZURICH: Focus on P&C (WFCE) in commercial banking (control-over client)	ERGO: Both JV's in L&H and P&C (ERGO subsidiary of Munich Re)	MAPFRE: Representative office in Beijing
<b>Consumer finance / non-banking</b>	Amundi: Multiple AMVM invest: JV in mutual fund, Specialized in auto financing (WFCE) and consumer loans, dealer financing and financial leasing	Volontario Financial Services: Specialized in auto financing (WFCE) and consumer loans, dealer financing and financial leasing	ING: JV in alternative investment (PE)	ERSTE: Equity held in Luxembourg with China exposure



# 'Two Sessions' endorse China's 14<sup>th</sup> Five-Year-Plan shaping its development trajectory until 2035



# The 14<sup>th</sup> Five-Year-Plan is of historic importance



**Li Junru**

*Vice-President of the Central Party School*

«The core of the plan is to realize the **biggest strategic shift** since the Third Plenary Session of the 11th Central Committee [1977-1982] and the establishment of a market economy system»

«规划核心要义就是实现(十一届)三中全会以来、建立市场经济体制以来**最大的一个战略转移**»

# Agenda: 14<sup>th</sup> FYP's strategic shifts and business implications

- 1 14<sup>th</sup> FYP in general:** global context, overarching strategic shifts and Dual Circulation – *7 slides*
- 2 Digital economy – the new growth engine:** data, anti-monopoly and market access – *3 slides*
- 3 Decarbonization – the “Presidential pledge”:** carbon neutrality by 2060 and China footprint case-study – *2 slides*
- 4 Industrial trends – the dichotomy stays:** evolving industrial policies and coupling vs. decoupling – *4 slides*
- 5 Health after Covid19 – spending catch-up and transversal impact:** expand public health quality and access – *3 slides*
- 6 Policy-business nexus – strategic implications for Swiss business** – *1 slide*



# China's FYPs: from self-reflection to reprioritizing ongoing policymaking on all levels

## What is a Five-Year-Plan?

### Historic and strategic self-reflection

- Reviewing past achievements, calibrating development stage and laying out future-oriented development concepts

### Whole-of-government approach

- CCP defines overall strategic guidelines and vision
- Extensive research and inputs from bureaucracy

### Recalibration and consolidation of existing policies

- Positions ongoing and past policymaking into a forward-looking framework

### No budget attached

- Ministry of Finance does not prepare budgets to support goals specified in the FYP

### Guidance instead of control

- FYPs today are not rigid frameworks
- Implementation relies considerably on market and local governments
- Some binding targets

### Issue-related focus and mega projects

- Key priorities needing high attention and intensive implementation efforts

### Specification of policy

- Overall FYP is boiled down to issue-/ industry-specific and regional plans

## 14th FYP is governed by 20 top-level KPIs

Category	Indicator	2020	2025	Annual / Accumulative	Attribute
Economic Development	1 GDP Growth (%)	2.3	—	To keep within an appropriate range and set annual targets in light of actual circumstances	Anticipatory
	2 Workforce Productivity Growth (%)	2.5	—	Higher than GDP growth	Anticipatory
	3 Urbanization Rate (%)	60.6*	65	—	Anticipatory
	4 R&D Spending Growth (%)	—	—	>7 / Strive for more than the total of 2016-2020 period	Anticipatory
	5 Number of High-value Invention Patents per 10,000 Population	6.3	12	—	Anticipatory
	6 Added Value of Core Industries in Digital Economy to GDP (%)	7.8	10	—	Anticipatory
Wellbeing	7 Disposable Income per Capita (%)	2.1	—	Basically in line with GDP growth	Anticipatory
	8 Surveyed Urban Unemployment Rate (%)	5.2	—	< 5.5	Anticipatory
	9 Years of Education Received by Working-age Population on Average	10.8	11.3	—	Obligatory
	10 Number of Certified (Assistant) Doctors per 1,000 Population	2.9	3.2	—	Anticipatory
	11 Basic Old-age Insurance Coverage (%)	91	95	—	Anticipatory
	12 Number of Nursery School Places for Infants Under Three per 1,000 Population	1.8	4.5	—	Anticipatory
	13 Life Expectancy	77.3*	—	[ 1 ]	Anticipatory
Ecology	14 Energy Consumption per Unit of GDP Decrease (%)	—	—	[ 13.5 ]	Obligatory
	15 Carbon Dioxide Emissions per Unit of GDP Decrease (%)	—	—	[ 18 ]	Obligatory
	16 Percentage of Days with Good Air Quality in Cities at Prefecture-level and Above (%)	87	87.5	—	Obligatory
Security	17 Percentage of Surface Water Reaching Grade III or Above (%)	83.4	85	—	Obligatory
	18 Forest Coverage Rate (%)	23.2*	24.1	—	Obligatory
	19 Overall Grain Production Capacity (hundred million tonnes)	—	> 6.5	—	Obligatory
	20 Overall Energy Production Capacity (hundred million tonnes of standard coal)	—	> 46	—	Obligatory

Notes:

Source: Xinhua



# 14<sup>th</sup> FYP with 19 chapters and 65 sub-chapters spread over 148 pages

Chapter	Topic	Page	Category
<b>目录</b>			
第一篇	开启全面建设社会主义现代化国家新征程	1	Modernization goals
第一章	发展环境	1	Innovation
第二章	指导方针	1	Innovation
第三章	主要目标	1	Innovation
第二篇	坚持创新驱动发展 全面塑造发展新优势	11	Innovation
第四章	强化国家战略科技力量	11	Industrial
第五章	提升企业技术创新能力	14	Industrial
第六章	激发人才创新活力	14	Industrial
第七章	完善科技创新体制机制	14	Industrial
第三篇	加快发展现代产业体系 巩固壮大实体经济根基	20	Industrial
第八章	深入实施制造强国战略	20	Industrial
第九章	发展壮大战略性新兴产业	23	Dual Circulation
第十章	促进服务业繁荣发展	23	Dual Circulation
第十一章	建设现代化基础设施体系	23	Dual Circulation
第四篇	形成强大国内市场 构建新发展格局	33	Dual Circulation
第十二章	畅通国内大循环	33	Digital economy
第十三章	促进国内国际双循环	33	Digital economy
第十四章	加快培育完整内需体系	33	Digital economy
第五篇	加快数字化发展 建设数字中国	39	Digital economy
第十五章	打造数字经济新优势	39	Digital economy
第十六章	加快数字社会建设步伐	41	Digital economy
第十七章	提高数字政府建设水平	42	Digital economy
第十八章	营造良好数字生态	44	Socialist market economy
第六篇	全面深化改革 构建高水平社会主义市场经济体制	49	Socialist market economy
第十九章	激发各类市场主体活力	49	Rural revitalization
第二十章	建设高标准市场体系	49	Rural revitalization
第二十一章	建立现代财税金融体制	51	Rural revitalization
第二十二章	提升政府经济治理能力	53	Rural revitalization
第二十三章	提高农业质量效益和竞争力	53	Urbanization
第二十四章	实施乡村建设行动	57	Urbanization
第二十五章	健全城乡融合发展体制机制	59	Urbanization
第二十六章	实现巩固拓展脱贫攻坚成果同乡村振兴有效衔接	61	Spatial planning and regional development
第二十七章	加快农业转移人口市民化	63	Spatial planning and regional development
第二十八章	完善城镇化空间布局	66	Spatial planning and regional development
第二十九章	全面提升城市品质	66	Spatial planning and regional development
第三十章	优化国土空间开发格局	70	Culture
第三十一章	深入实施区域重大战略	76	Culture
第三十二章	深入实施区域协调发展战略	76	Culture
第三十三章	积极拓展海洋经济发展空间	79	Culture
第七篇	坚持农业农村优先发展 全面推进乡村振兴	53	Culture
第三十四章	提高社会文明程度	84	Culture
第三十五章	提升公共文化服务水平	84	Culture
第三十六章	健全现代文化产业体系	85	Culture
第八篇	完善新型城镇化战略 提升城镇化质量	63	Culture
第九篇	优化区域经济布局 促进区域协调发展	70	Culture
第十篇	发展社会主义先进文化 提升国家文化软实力	84	Culture
第十一篇	推动绿色发展 促进人与自然和谐共生	88	Green development
第三十七章	提升生态系统质量和稳定性	88	Green development
第十二篇	实行高水平对外开放 加快构建新发展格局	98	Opening up
第三十八章	持续改善营商环境	91	Opening up
第三十九章	加快发展方式绿色转型	94	Opening up
第四十章	建设更高水平开放型经济新体制	98	Opening up
第四十一章	推动共建“一带一路”高质量发展	100	Opening up
第四十二章	积极参与全球治理体系改革和建设	102	Opening up
第十三篇	提升国民素质 促进人的全面发展	104	Education, health and aging
第四十三章	建设高质量教育体系	104	Education, health and aging
第四十四章	全面推进健康中国建设	107	Education, health and aging
第四十五章	实施积极应对人口老龄化国家战略	111	Education, health and aging
第十四篇	增进民生福祉 提升共建共治共享水平	114	Employment, public services, social security
第四十六章	健全国家公共法律服务体系	114	Employment, public services, social security
第四十七章	实施就业优先战略	115	Employment, public services, social security
第四十八章	优化收入分配	117	Employment, public services, social security
第四十九章	健全多层次社会保障体系	118	Employment, public services, social security
第五十章	保障妇女儿童和残疾人基本权益	120	Employment, public services, social security
第五十一章	构建基层社会治理新格局	122	Security
第十五篇	统筹发展和安全 建设更高水平的平安中国	124	Security
第五十二章	加强国家安全体系建设	124	Security
第五十三章	强化国家经济安全保障	124	Security
第五十四章	全面提高公共安全保障能力	127	Security
第五十五章	维护社会稳定	129	Military
第十六篇	加快国防和军队现代化 实现建军一百年奋斗目标	131	Military
第五十六章	提高国防和军队现代化质量效益	131	Military
第五十七章	促进国防实力和经济实力同步提升	131	Military
第十七篇	加强社会主义民主法治建设 健全党和国家监督制度	133	Governance capacity
第五十八章	发展社会主义民主政治	133	Governance capacity
第五十九章	全面推进依法治国	134	Governance capacity
第六十章	完善党和国家监督体系	134	Governance capacity
第六十一章	保持香港、澳门长期繁荣稳定	136	One country, two systems
第六十二章	推进两岸关系和平发展和祖国统一	137	One country, two systems
第十九篇	加强规划实施保障 确保实现全面建设社会主义现代化国家新征程开好局起好步	139	Implementation
第六十三章	加强党中央集中统一领导	139	Implementation
第六十四章	健全统一规范权威的国家规划体系	139	Implementation
第六十五章	完善规划实施机制	140	Implementation

Economic policy      Social policy      Security/governance      FYP goals/governance

# 14th FYP is devised at a «historic» moment and puts forward a set of strategic shifts

## Key influencing factors



### Development imperative and avoiding the “middle income trap”

- Adjust investment-led growth model and address overcapacities and high debt level
- Ensure development towards 2<sup>nd</sup> centennial goal



### US-China rivalry and geopolitics

- “US containment and suppression as big threat” (美国遏制打压是一大威胁)
- “The world today is undergoing major changes unseen in a century”



### “Institutional confidence” (制度自信)

- Covid-containment as “major strategic outcome”
- China seen with “system advantage” (制度优势)
- East is rising, West declining” (“东升西降”是趋势)



### Xi’s consolidated power

- 19th CCP Central Committee’s 5<sup>th</sup> Plenum further consolidated Xi’s power, e.g. referring to Xi as “grand navigator and helmsman” (核心领航掌舵)

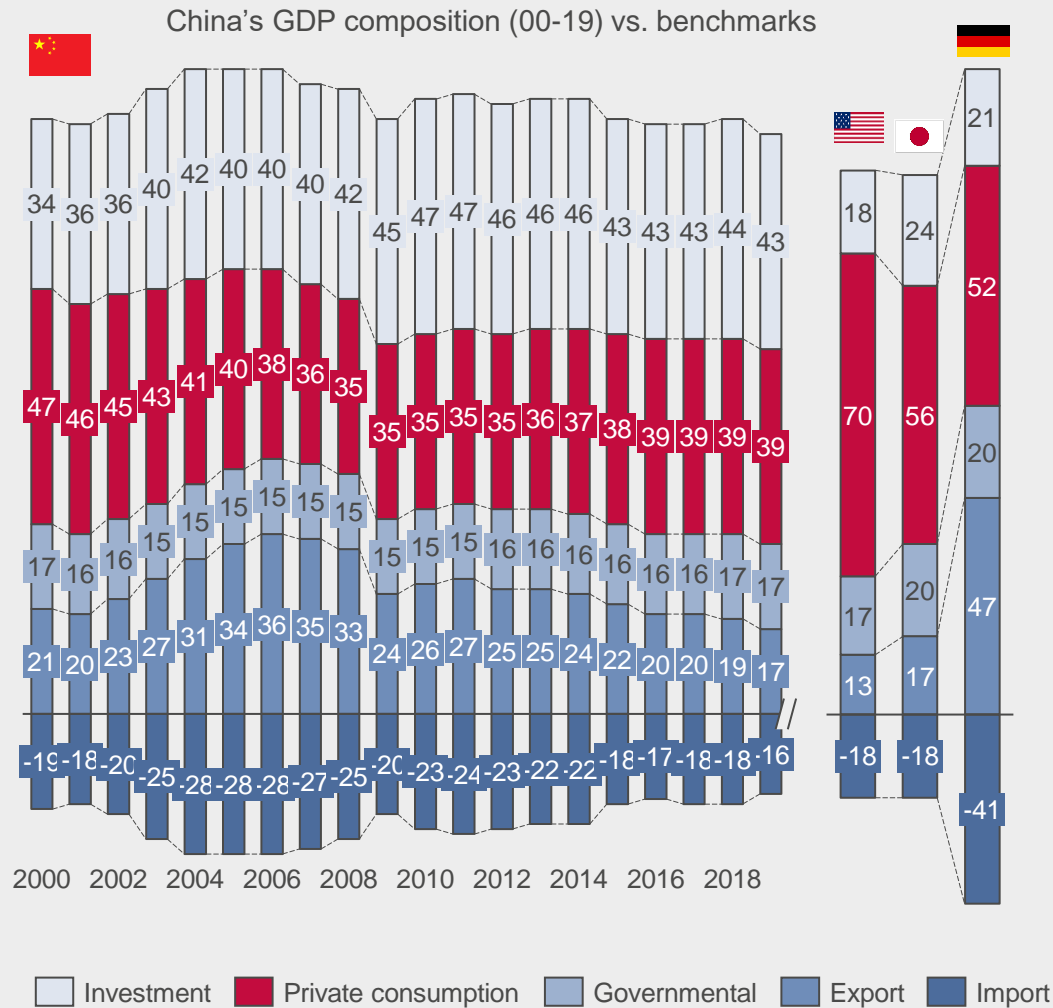
## Key strategic shifts

- 1 **Domestic demand:** strategic value of middle-class consumption potential and “super-sized” domestic market
- 2 “Large gravitational field”: new strategic rationale for **opening-up**
- 3 “**Data**” as a new factor of production and **digital economy**
- 4 Rediscovering value of China’s **manufacturing base** and financial system to “**serve the real economy**”
- 5 **Human health and environment:** new ecological balance, public health and decarbonization
- 6 More use of **market forces:** e.g. factor liberalization, capital market, anti-monopoly or evolved industrial policy
- 7 New urgency for **technological self-sufficiency** (科技自立自强)
- 8 Heightened **security** needs: food, data, energy, supply chain, technology, overseas interests
- 9 Bolstering of **state economy** and role of **SOEs** to help implement strategic priorities
- 10 New **urbanization** concepts (“metropolitan circles”) and **regional development strategies** (“city clusters”)

14<sup>th</sup> FYP further devises long-term goals for 2035: *entering forefront of innovative countries, doubling GDP as “non-codified ambition”, overall national strength raised sharply and major breakthroughs in core technologies*

# Dual Circulation (DC): leverage 'super-sized domestic market' as 'new development pattern'...

## China's past growth heavily reliant on investment



## DC's three building blocks envisioned by Chinese policymakers

- 1 Improve the "domestic large circulation" (国内大循环)**
  - Continue the "SSSR" (more efficient and marketized state economy)
  - Build a "single market" with reduced barriers and improved logistics
  - Improve **financing capability** of financial system for "real economy"
- 2 Strategy to "expand domestic demand" (扩大内需战略)**
  - Consumption:** grow the consumption share by reforming social and Hukou policies, expand services and rising wages via higher labor productivity
  - Investment:** focus on more selective and higher-return investment projects such as "new infrastructure" or "new urbanization"
  - Governmental expenditure:** control budget deficit and rebalance fiscal expenditure towards social welfare
- 3 Domestic and international cycle synergies (促进国内国际双循环)**
  - "Balanced import-export development": import of high-value consumer goods, technology, key equipment, energy and resources, while increasing service export and export value-added
  - Two-way investments:** attract more foreign capital, also conditioned to domestic needs (high-tech, inland regions, science projects), and continued "going out" of Chinese services, brands and technologies

DC as renewed, demand-stressing political signal to domestic audiences to accelerate market reforms and transition to consumption-led growth



# ... in line with UNCTAD's call for adjusted economic development strategies post-Covid



UNCTAD reports from 2020

## Key trends affecting **international production and trade**:

- Pandemic and supply chain concerns
- More economic nationalism
- Sustainability trends
- Transformation of production (e.g. additive manufacturing)

## “Old development strategy”

- *“Their [developing countries] development and industrialization strategies have depended on attracting FDI, increasing **participation and value capture in GVCs**, and gradual technological upgrading in international production networks.”*

## “New development strategies”

- *“A degree of rebalancing towards **growth based on domestic and regional demand** and promoting investment in infrastructure and domestic services is necessary.”*
- *“[...] world economy being a closed system, not all countries can experience net export surpluses [...] the **net-export model** cannot be ‘the’ widely recommended recipe”*

# Beyond rebalancing growth model, China's development model shall also be made more resilient

## Xi's guidance on "resilience"



*From Xi's speech in the 7<sup>th</sup> meeting of the CCP Commission Economy & Finance on 10<sup>th</sup> April 2020*

*"The industrial chain and supply chain cannot be dropped at a critical moment. [...] This epidemic is a **stress test under actual combat conditions.**"*

*"[...] we need to build an **independent, controllable, safe and reliable industrial chain and supply chain**, and strive to have at least one alternative source for important products [...]."*

## Corresponding policy priorities

- Retain China's central role in **industrial and supply chains** and preserve "critical links" domestically
- Tighten **foreign dependencies** on China's most competitive manufacturing sectors and capabilities
- Diversify **import sources and supply chains**
- Leverage **trade relations with BRI partner countries** to make supply chains more "secure and stable"
- Accelerate **S&T and industrial policies** to reduce dependence on foreign critical inputs
- Build domestic industrial backups to allow "**self-circulation**" (自我循环) in "critical moments"

# In parallel, 14<sup>th</sup> FYP signals changes to the “BRI” and broadens the trade policy toolbox

## Belt and Road Initiative

- **Various “slowing down factors”**
  - Geopolitical tensions, rising debt levels in BRI countries and fiscal expenditure conflicts with “domestic market”
- **Stronger thematic focus and geographic rescaling**
  - Instead of comprehensive connectivity, shift to sectoral priorities in digital, health and finance
  - Focus on ASEAN and Central Asia region with continued excess capacity export, as well as more FDI and trade
- **More attempts to make BRI projects more sustainable**
  - Stronger mobilization of private capital, multilateral financing, debt sustainability framework and green bonds

## Trade policy priorities

- **Follow-through on RCEP for regional economic integration**
  - Regional value chains, offshoring and industrial upgrading
- **Further build-out of FTA network**
  - Exploration of CPTPP, priority on SK-JP-PRC and FTAAP
  - Increase trade with neighbor countries
- **Cross-border e-commerce and services export, esp. manufacturing services**
  - Government-backed e-commerce clusters (e.g. Hangzhou)
  - “Going global” of professional services (supply chain mgmt., consulting, law-firms etc.) with manufacturing OFDI
- **“Next level” trade promotion**
  - Use of digital technologies (AR, VR), export alliances, SOE export readiness and support for SMEs
  - Manufacturing-logistics nexus, e.g. warehousing capacities in coastal areas
- **New autonomous trade instruments**
  - Export control regime, unreliable entity list and “blocking statute” to combat foreign sanctions



# “Data as a factor of production” – increased data access and data governance

## 14<sup>th</sup> FYP: data as a factor of production



Yu Shiyang,  
Director of the Big  
Data  
Development  
Department of the  
National  
Information Center

*“If oil is the core resource in the era of industrial economy, then **data is the most important strategic resource in the era of digital economy.**”*

- Data was defined as a **factor of production** in 2019
- 14<sup>th</sup> FYP aims to “**build a mature national public data resource system**”

## Establishing a data trading market

- Jan 2021 policy “*Action Plan for Building a High-Standard Market System*” aims to build **data market** so data can be priced and traded like regular commodities
- “*Guiding Opinions on Development of Industrial Big Data*” foresees national **data value assessment system**

## Data integration and data sharing

- Policymakers aim to address problems of data islands within bureaucracy and market governance
- 55% of provinces have established open data platforms
- 14<sup>th</sup> FYP intends provision of more public data for health, weather and traffic

## Data governance

- Increasingly comprehensive personal data and overall cybersecurity regime
- Data ownership still an unclarified point in data governance
- Shenzhen government triggered huge controversy in 2020 by attributing non-personal/-individualized data to state ownership in interesting move declaring it “public good”

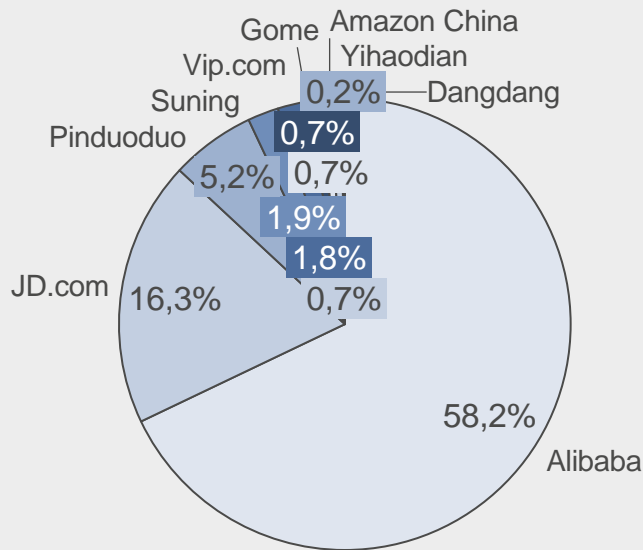
## Key implications

- Companies (incl. FIEs) in China will have more access to **public data** for IoT, AI algorithms, or market analytics
- Foreign companies need to start thinking about how to leverage **data trading** possibilities
- Foreign companies may **face limitations in trade** for important or sensitive personal data
- **Monitoring** of data categorization and data access recommended

# Anti-monopoly will revitalize competition among internet platforms – new opportunities to arise

## Government tackling monopolistic behavior

- 14<sup>th</sup> FYP with 1st time prominent chapter on anti-monopoly under the “**High Standard Market**”
- On 7 Feb, 2021, the SAMR issued the finalized *Anti-monopoly Guidelines for the Platform Economy* to **prevent and stop monopolistic behavior in the platform economy**
- Guidelines put new pressure on **internet giants, esp. in e-Commerce and FinTech**



Market share of eCommerce platforms in China, 2020

## Alibaba landmark case – benefits expected



- Alibaba Group was fined **2.75bn USD** for anti-monopoly violations on 9<sup>th</sup> April 2021
- SAMR concluded that Alibaba's actions “**eliminates and restricts competition in China's eCommerce platform service market**”
- Key monopolistic behaviors were established as :
  - *Ali's market share exceeding 50%, abusing other operators' dependence on Ali*
  - *Prohibiting on-platform operators to open stores on other competitive platforms*
  - *Harming the interests of consumers*

“The anti-monopoly law marks a ‘new spring’ for smaller players and start-ups, with a hundred flowers blooming” – iYiou blogger “A Xing”

互联网平台经济反垄断 创新业态百花齐放才是春

## Key implications

- Foreign players likely to have **more options** for B2C/B2B e-Commerce
- In this, they will be able to partner with **smaller and specialized players**
- However, devising effective **digital go-to-market** approach will require more resources
- Recent policies encourage **foreign investment access** in cross-border e-commerce

# Opening up of the digital economy still with substantial headroom

Business type	License needed	Accessibility	Opening up support	Remaining barriers
Cloud services	Internet Data Centre Service (B22)	Foreign players: ✓ <i>Not open to foreign investment excl. HK and Macao (50% cap)</i>	<ul style="list-style-type: none"> <li>In CAI negotiations, China has agreed that EU investors can participate in cloud service investment a 50% equity cap</li> </ul>	<ul style="list-style-type: none"> <li>EU investors can potentially invest in cloud services with equity cap depending on CAI agreements</li> </ul> <p><b>Pending conclusive clarifications</b></p>
E-Commerce	EDI License (B21)	Foreign players: ✓ <i>FE cap lifted in Neg. List for eCommerce</i>	<ul style="list-style-type: none"> <li>Hainan FTP negative list removes restrictions for foreign investment access in expanding cross-border e-Commerce activities</li> </ul>	<ul style="list-style-type: none"> <li>Fully accessible for foreign players and investors with correct licenses</li> </ul>
5G Provision	Spectrum 5G license	Foreign players: ✗	<ul style="list-style-type: none"> <li>2020 Catalogue of Encouraged Industries for Foreign Investment listed 5G R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>Foreign firms likely to only be able to provide service as contractor with local players</li> </ul>
Website	ICP Filing	Foreign players: ✓ <i>with Chinese business license</i>	<ul style="list-style-type: none"> <li>Open for foreign firms with a Chinese business license</li> </ul>	<ul style="list-style-type: none"> <li>Fully accessible for foreign players and investors with correct licenses</li> </ul>
Information Service business	ICP License (B25)	Foreign players: ✓ <i>B25 ICP licenses face 50% cap, some areas forbid foreign equity</i>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Foreign firms can only conduct information service business in partnership with local firms, and license difficult to obtain in reality</li> </ul>
Internet Connection Services	Internet Service Provider (ISP license)	Foreign players: ✓ <i>Not open to foreign investment excl. HK and Macao (50% cap)</i>	<ul style="list-style-type: none"> <li>British Telecom became 1st foreign firm to procure nationwide ISP license to provide internet connection services in 2019</li> </ul>	<ul style="list-style-type: none"> <li>License for internet connection services difficult to obtain in reality</li> </ul>

✗ = foreign enterprises cannot apply for licenses  
 ✓ = partially open for foreign enterprises, challenges remain  
 ✓ = foreign enterprises and/or JVs can technically apply for licenses

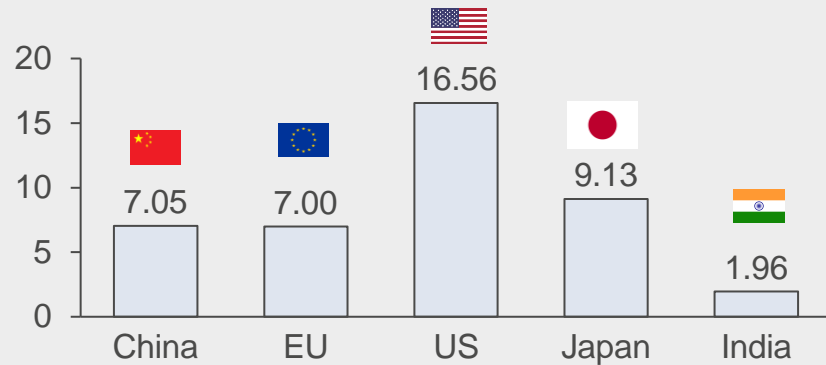


# Intensification of climate policy with decarbonization as priority

## Current: China has a large impact on global climate

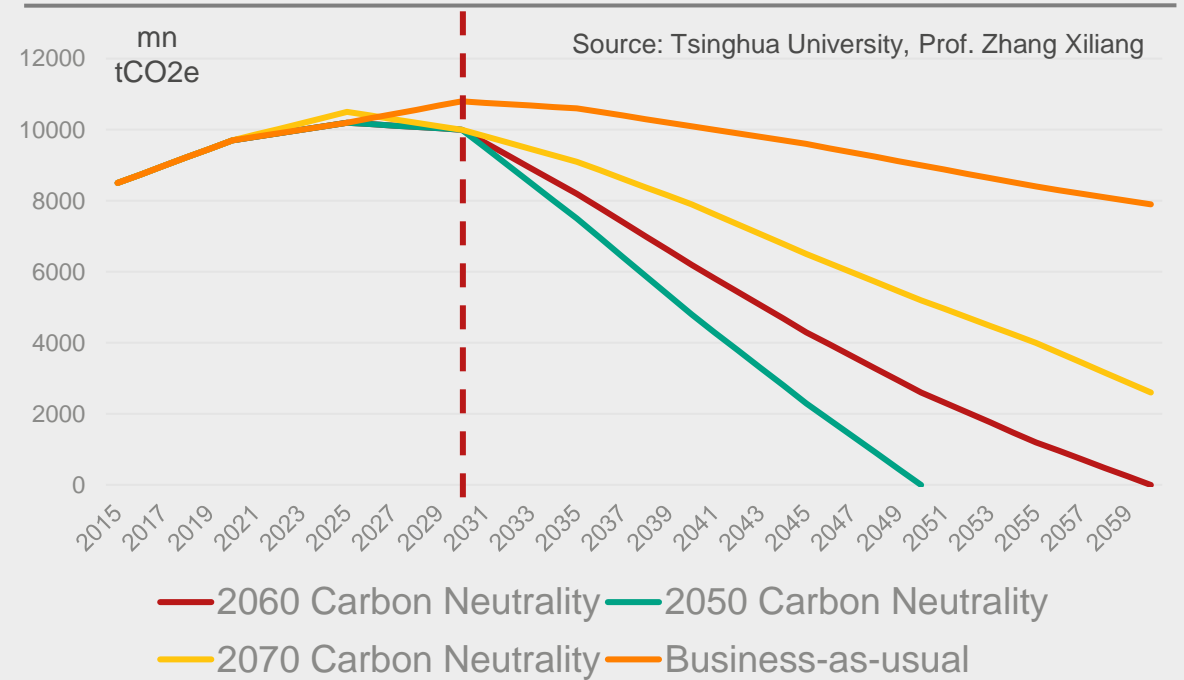
- China continues to be the largest CO<sub>2</sub> emitter in the world
- Despite massive investment in renewable energy, China remains heavily reliant on coal as primary energy source

China's CO<sub>2</sub> emissions per capita have risen to the level of the EU

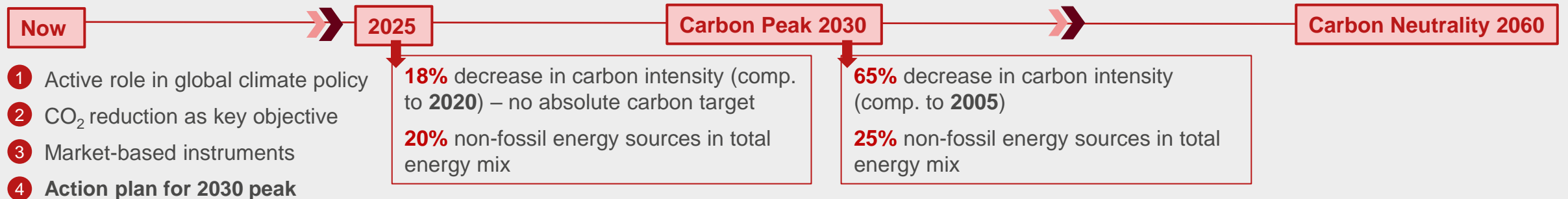


CO<sub>2</sub> emission per capita in 2018 (in metric tons)

## What to expect: Carbon neutrality scenarios



## China's path to carbon neutrality:



# China's climate measures offer opportunities for decarbonization measures by MNCs

## MNC Global Operations

### Firm's CO<sub>2</sub> Emissions by Scope

<b>Emissions from manufacturing</b>	Manufacturing operations	3%
<b>Emissions from power</b>	Purchased electricity	3%
<b>Other indirect emissions</b>	Sourcing Ingredients	73%
	Packaging Products	12%
	Managing Logistics	8%
	Travel and Employee Commuting	1%
<b>Off-setting</b>	Remove carbon from atmosphere	

**%** = Estim. share of MNC's total CO<sub>2</sub> emissions

## MNC China Operations

### Measures already taken

Low	
Low	<ul style="list-style-type: none"> <li>Power-purchase agreements for renewable electricity</li> </ul>
Medium	<ul style="list-style-type: none"> <li>Purchase of Green Energy Certificates</li> </ul>
High	<ul style="list-style-type: none"> <li>Sustainable packaging</li> <li>Investment to replace virgin plastics</li> </ul>
Low	
Low	

## China Carbon Policy

### Chinese Gov. Measures

- National Emission Trading System (ETS)
- 8 Pilot ETS
- Direct Power Purchase Agreement (PPA)
- Green electricity certificates (GEC)
- Electrification of transport
- Diesel Truck Pollution Control
- Unified Green Product system
- Strict plastic regulation
- Certification for sustainable products
- Carbon sink trading

# Benchmark for reducing carbon footprint: Apple Green Power plants (solar, wind)



## Apple's Goal: 100% RE for all China operations

by producing power needs of Apple retail stores, offices and data storage facilities in China with RE plants. Key strategies:

- Cooperation with Chinese Partner
- Direct investment in Chinese RE company
- Sino-foreign JVs to build/operate plant
- Invest via own China Green Energy Fund
- Commit suppliers to 100% RE via Initiative



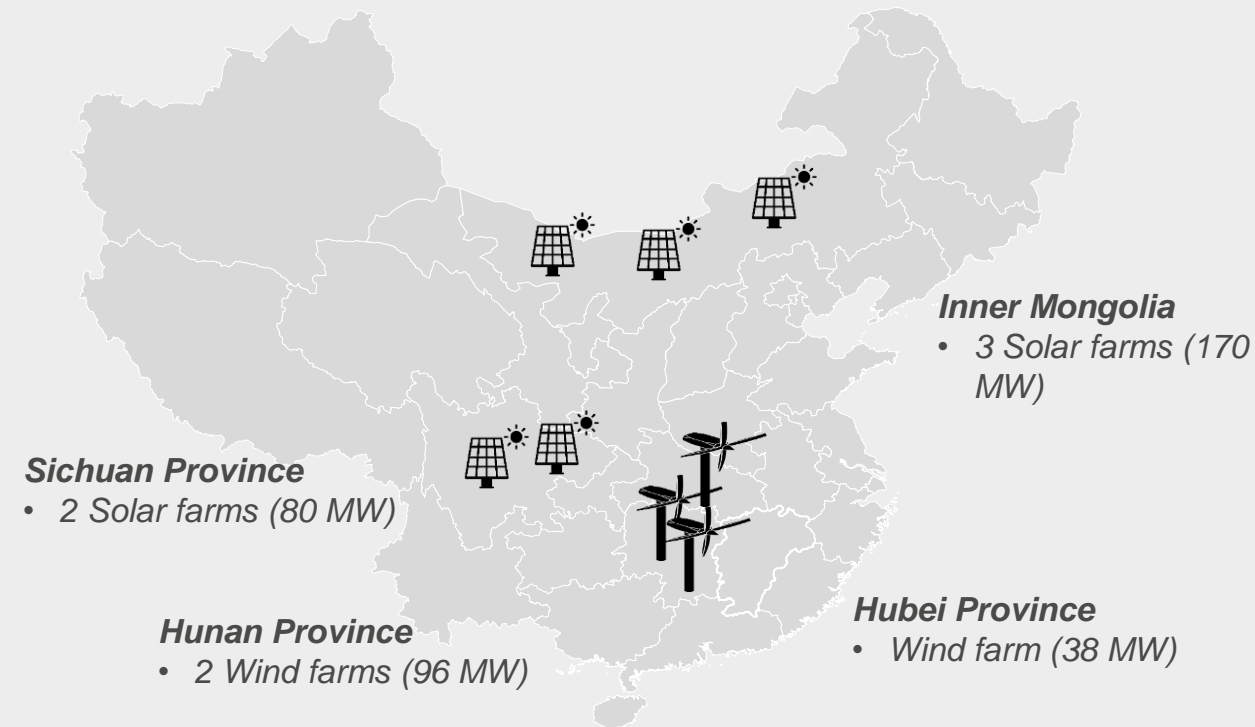
## China Green Energy Fund

Goal: Develop and finance clean energy projects totalling more than 1 GW of RE in China

- Fund managed by DWS Group
- So far, Apple has announced to invest USD 300 mio. in RE projects in China in partnership with numerous suppliers
- Manufacturing partner in China can invest in green energy projects via fund
- 10 suppliers have already committed to Fund

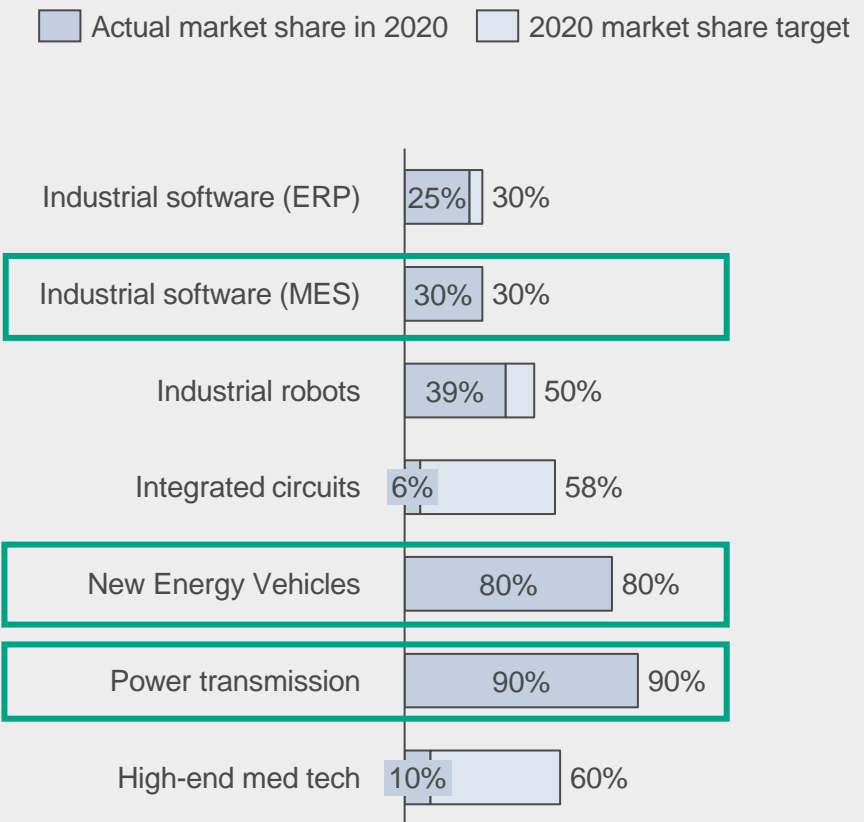
## RE Plants in China with Apple investment (Selection)

Plants operated in cooperation with Chinese RE companies:

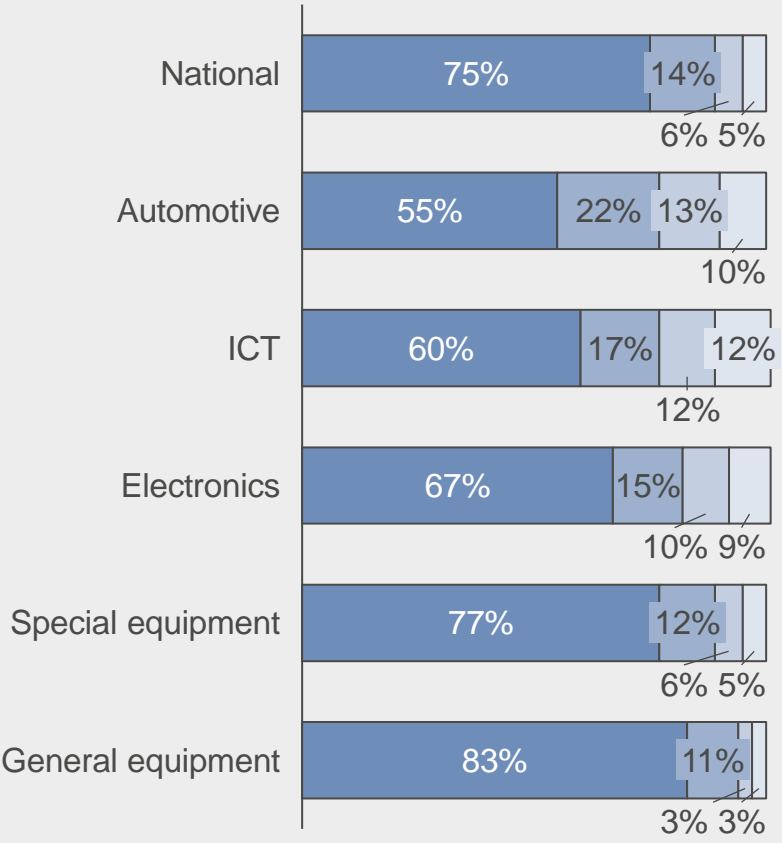


# Made in China 2025's mixed results so far triggered a "new realism" in China's S&T thinking

## China reached MiC25 substitution targets only in some areas



## Automation of industries started, but still way to go



## Self-sufficiency is not a "straight way forward"



**Miao Wei 苗圩**  
Former Minister for Industry and Information Technology

“It will take at least **30 years** to achieve the goal of becoming a manufacturing superpower. [...] Basic capabilities are still weak, key core technologies are restricted by others, and the risk of **choke points** and **supply chain disruptions** have increased.”

Sources: MIIT, IC Insight, Tianfeng Securities, Shenzhen Gaogong, LeadLeo

- 1: First steps of digitalization
- 2: Important production steps are standardized and digitalized
- 3: Coordination between important production steps within and outside own area
- 4 und 5: Knowledge and model based optimization of activities



# Industrial and innovation policies become more selective and market-based under the 14<sup>th</sup> FYP

## More selective industrial and innovation policies



State will target critical “**bottleneck**” technologies, which could disrupt China’s national development, and “**trump card**” technologies, to use as leverage in case of tensions



Against backdrop of mixed ownership reform to make SOEs more efficient, **SOEs** remain an integral part of China’s efforts to catch up technologically (e.g. with explicit R&D spending goals from SASAC)



China’s **subsidy policy** will become more selective even in strategic sectors where Chinese companies are not yet competitive

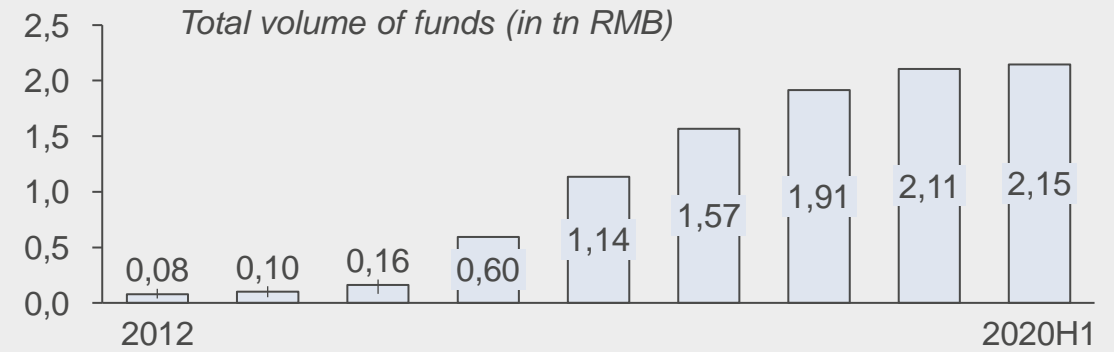


**China Standards 2035:** Chinese policymakers give industry leaders greater standard-setting powers, while maintaining influence for strategic sectors (e.g. IC Standardization Committee)

## Leveraging more market-based tools for strategic objectives



Optimization of **Industrial Guidance Funds** to leverage public funds to steer private capital into strategic priority sectors (esp. MiC25)



Increased use of **technology stock exchanges**, such as STAR Market or ChiNext, to fund innovative start-ups, while signaling priority sectors (esp. “hard tech”)

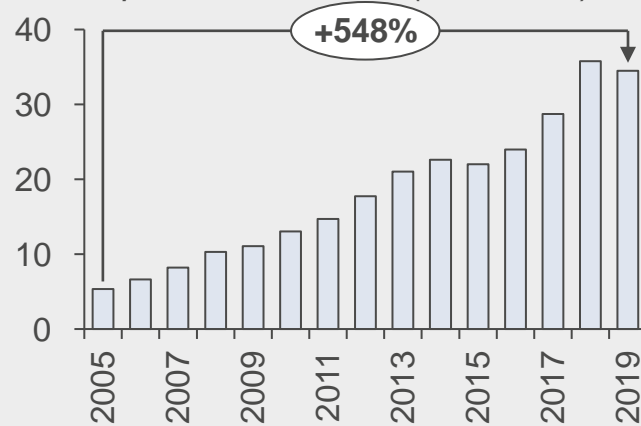


14<sup>th</sup> FYP prioritizes strengthening **intellectual property rights** through higher penalty and compensation fees and better training for judges in competition courts

# Domestic and international standard-setting as effective tool to support domestic companies

## Foreign IP dependence drives national standardization ambitions

General license fees paid by Chinese companies 2005-2019 (in bn USD)



### Major concerns of Chinese policymakers

- Being “late to the game” of setting standards has cost Chinese firms substantially in **licensing fees**
- Reliance on foreign standards viewed as potential national **security risk**

### 3 major goals pursued through standardization

- 1 Industrial policy tool** to boost effectiveness of R&D and avoid redundancy through setting clear standards
- 2 Internationalizing** domestic standards to capture markets abroad without adopting foreign standards
- 3 Protecting infant markets** by excluding foreign-designed standards

## Example: standardization dynamics in semiconductors

- MIIT announced establishment of **National IC Technical Standardization Committee** (全国集成电路标准化技术委员会) led by the China Electronics Standardization Institute (CESI) and guided by MIIT



全国集成电路标准化技术委员会筹建公示

- **90 entities from the private sector as well as academia have joined** to establish common domestic standards



- **CESI argues the need for domestic standard framework:**



“Rapid development of Chinese IC industry over past years **outpaced current standardisation framework** in semiconductor design, test, packaging, and MEMS set by the International Electrotechnical Commission (IEC).”

# High-tech FDI encouraged and various options to engage in China's innovation system

## China encourages innovation-relevant FDI in high-tech

### 关于扩大战略性新兴产业投资 培育壮大新增长点增长极的指导意见

发改高技〔2020〕1409号

„Expanding investment in strategic emerging industries and fostering the growth of new growth pole“

- New NDRC guidance to **increase funding to Strategic Emerging Industries (SEI)**
- Further **reduction of negative list** especially to capture more foreign investment for SEI

### 鼓励外商投资产业目录

(2020年版)

„Encouraged foreign investment catalogue“

- New catalogue from 2020 features **1'350 industries** compared to only 121 in 2017, esp. including **high-tech industries** (e.g. circuits/chips, AI, cloud computing, autonomous vehicles, 5G)
- Benefits from projects in encouraged sectors:
  - Tariff exemptions on imported equipment
  - Preferential land prices
  - Looser regulation on land use

## Foreign firms can engage in China's evolving innovation system

### Key avenues observed of FIEs accessing local innovation resources



# US-China trade-war: export restrictions are increasingly a business reality

## Trade control instruments

## Targeted commercial activity

## Selected tech / companies of control



### Commerce Control List (de minimis rule)

Export or reexport of a good consisting of at least 25% of export-controlled **US components** or technology to China

- Select examples:
- Machine tools (e.g. for turning, grinding, milling)
- Cutting machines (gears)
- Finishing machine (gears)
- Superplastic forming tools, dies, molds or fixtures



### Entity List (de minimis rule and foreign direct product rule)

Export or reexport of a good produced from **US technology or software** (for selected goods); or consisting of at least 25% of export-controlled US components to sanctioned **Chinese firms**

Select examples / full list 200+ Chinese firms:

- Huawei
- CSET
- CASIC
- CCCC
- CETC
- CSSC
- HikVision
- Megvii
- Northwestern Polytechnical University



### Export Control Law



Export of technology resulting from **R&D investments or partnerships with Chinese companies** out of China

Select examples:

- Agricultural machinery manufacturing equipment
- IC manufacturing equipment
- Basic common technology of machine tool industry (e.g. functional safety)
- Application technology of construction machinery (bulldozers, excavators etc.)



# The 14th FYP aims to make public health more affordable, accessible and higher quality

Key policy drivers	Policy shifts from the 14 <sup>th</sup> FYP	<i>Business implications</i>	
		Pharma	MedTech
 <p><b>Improve public health quality and access</b></p>	<p>▶▶ Overall rising <b>public expenditure</b> on health, <b>Healthy China 2030</b> implementation and <b>tiered healthcare reform</b> to increase quality supply in lower-tier cities and the countryside</p>	+	+
	<p>▶▶ Development of <b>multi-party payment system</b> and commercial health insurance</p>	+	+
	<p>★ <b>National level support</b> for medical product procurement reforms, esp. National Reimbursement Drug List and <b>Volume-based procurement</b> 🔍</p>	○+	○+
	<p>▶▶ <b>Primary and elderly care reforms</b> driven by demographics and life expectancy</p>	+	+
 <p><b>Encourage indigenous innovation</b></p>	<p>▶▶ <b>Industrial policy</b> bolstering local champions, but international players key to supply chain security 🔍</p>		○+
	<p>▶▶ Policy dynamic to ease approvals and incentivize innovation for <b>serious diseases and innovative MedTech</b>, e.g. extension of local pilots in Hainan Boao Lecheng, Guangdong</p>	+	+
	<p>▶▶ <b>Marketing Authorization Holder</b> creates flexibility for <b>IP-holders</b>, but IP concerns remain</p>	○+	○+
	<p>★ Development of <b>digital health</b> and <b>medical data sharing</b> (especially in R&amp;D) as well as increased usability of <b>Real World Data (RWD)</b></p>	○+	○+

# Deep-dive #1: VBP achieved significant spending cut, but innovation outcome yet to be seen

## VBP mechanism and objectives

- China's 14<sup>th</sup> FYP made explicit mention of Volume-based Procurement (VBP) calling to promote **usage reforms** and develop high-end medical devices
- Following price control concepts in OECD countries, **VBP** has been trialed in China since 2018 covering **pharma and high-value medical consumables**
- By end 2020, almost **every province has involved** in VBP – a tiered, regularized VBP will be expected in coming years
- Two key policy goals of VBP:



### Affordable healthcare

- Reduce fiscal budget pressure on healthcare spending
- More affordable healthcare for a fast-aging society



### Medical innovation

- Incentivize companies to innovate prescription drugs by lowering prices of outdated ones

## Price cut achieved albeit quality concerns remain

- **Significant price decrease achieved:** by end 2020, the VBP has saved medical insurance fund accumulatively 100 Billion RMB in pharma expenditure
- **Quality remains a public concern** as brand-name drugs have been seen withdrawing from later batches of VBP bids and foreign pharma question rigidity of quality enforcement (EUCCC)

VBP trials	4+7	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Won by brand-name	2	7	5	3
Won by generic drug	23	18	28	53
<b>Total No. Bids</b>	25	25	33	56

- **Shrunk profit margin** disrupts brand-name companies' strategy and capacity for R&D

## Key implications

- VBP linked with **national drug reimbursement list (NDRL)**; latter offering window of opportunity for innovative firms before VBP kicks in
- Increased competitiveness of **generic drugs**
- Reduced **bargaining power** due to increased price transparency among provinces
- **Margin erosion** challenges investment in R&D and quality control
- Lowered medical spending used to expand public healthcare coverage creating **long-term opportunities**

# Deep-dive #2: indigenous innovation push; continued room for foreign MedTech firm

## Strong push for indigenous innovation

### National efforts to foster local champions

- MIIT laid out ambition to cultivate **6-8 domestic medical equipment** manufacturers among global top 50 by 2025
- State Council underscored **indigenous innovation** of high-end medical devices in its March 2021 revision of the “*Regulation and supervision on Medical Devices* (医疗器械监督管理条例)” including new R&D measures

### ... echoed by local governments measures

- Local government will use **financial tools** to support domestic suppliers in high-end medical equipment and build **industry clusters**
- 29 provincial governments incl. Guangdong, Zhejiang and Hubei increased quota for hospitals to procure **local innovative products**.

## International firms still important

### Local policies are key for high-end medical device accelerated imports

- **Hainan-Lecheng and GBA** pioneers for importing urgent clinic supply with streamlined approval process.

### Localization of imported medical devices

- A 2020 NMPA notice encourages foreign MedTech firms to move production chain to China by e.g. simplifying domestic registration for imported Class II/III devices or IVD products

### Trade policy to secure supplies

*RCEP decreases tariffs for MedTech*

Tariff promise to Japan under RCEP	Base rate	Year 1	Year 5
Electro-cardiographs	5%	0%	0%
B-ultrasonic diagnostic equipment	7%	6.4%	3.8%
Magnetic resonance imaging	4%	3.6%	2.2%
Artificial teeth	4%	0%	0%

## Key implications

- More **streamlined administration** for international MedTech companies willing to localize production chain
- **Import fast-track** in designated pilots (Hainan)
- **Fastened regulatory** moves to protect IP holders
- Mid-term increase of **competitiveness of Chinese suppliers**
- Uneven access to local **government subsidies for R&D**

# Policy-business nexus: Strategic implications from China's evolving political economy

«Food for thought»

## New strategic and risk-aware thinking on Chinese market and economy

- Acknowledge **fundamental policy forces** (e.g. regionalization, cyber sovereignty and technological self-sufficiency) at play and continued development of the “**socialist market economy**” guided by long-term development and political objectives
- China's strategy is the “long game” of becoming the **world's largest economy** by end of 2020s, for this: the Chinese market will further open up, partially conditioning FDI to its needs, improving the business environment, while some behind-the-border challenges will persist
- Market share or niche? From **tactical to strategic growth** in China's “super-sized” market: **out-innovate, out-compete or long-term utility?**
- More **HQ and China subsidiary synchronization** on strategy making, investments as well as challenges and opportunities

## Seize strategic opportunities in China's market

- Capture more **household consumption** (via downstream demand) as well as more private and more marketized public **investments**
- Against background of regional economic integration in the Asia Pacific, explore how to leverage China's growing **free trade network, BRI-based connectivity** and continued “**going out**” for strategic BD or exports out of China
- More **bi-directional in your value proposition**: leverage your “global resources” and your cross-cultural management advantages
- Shoot reasonably high with your “**digital ambition**”: cooperate with new internet platforms and embrace China's (cross-border) e-commerce
- Leverage “meritocratic” aspects and ensuing benefits of China's increasingly mature **regulatory governance systems** (esp. CSCS)

## Review your business model and functional capabilities

- **Onshoring manufacturing, R&D** (tapping China's innovation ecosystem), expansion to **services** and China-based **export capability**
- Strengthen **PGA** and **market intelligence** to better anticipate policy dynamics and impacts on your business' underlying value drivers
- Strengthen your **partnering and integration capability** to strategically, yet effectively leverage local cooperation and partnerships





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**Thank you for your time and interest!**