Chinas neuer Fünfjahresplan – Analyse und Perspektive

Thaddäus Müller, Director
Background

For over 30 years, our 100+ specialists in four locations...

- Established in 1982 in Hong Kong
- Professional service provider focused on China
- More than 100 Chinese and foreign specialists
- **Four** China teams strategically located in Beijing, Hong Kong, Shanghai, and Shenzhen
Integrated Services – Total Solutions in China and Hong Kong – Our 6 Core Services

- Define markets
- Develop human capital
- Market Intelligence
- Personnel
- Strategy Development & Realisation
- Structure & execute business plans
- One-Stop-Shop
- Trade Support
- Optimise sourcing & execution
- Accounting & Controlling
- Ascertain value & limit risks
- Corporate
- Establish & administer companies
Four Decades of Growth

China in the "New Normal": 1. Medium to high speed growth 2. Improved and upgraded economic structure 3. Innovation—not investment-driven economy

GDP Development (1978-2015)

Real GDP Avg. Growth 9.7%
- Deng Xiaoping

9.7%
- Jiang Zemin

10.4%
- Hu Jintao

7.4%
- Xi Jinping

6.5%

“Open”
- 1978 Open
- 1980 SEZ
- 1988 Price reform

“Reform”
- 1992 Transition
- 1993 National vs. Local tax
- 1994 FX; Urban housing
- 2001 WTO
- 2003 Education & Medical

“Harvest”
- 2005 Agri. tax
- 2010 RMB 4 trillion

“Balance”
- 2013
- Anti-Corruption
- China 2025
- OBOR
- Service Industry
- New Normal

Source: News, Fiducia Analysis
The Chinese government has identified these four topics are their focus points.

- Middle – High Growth
- Shift to Domestic Consumption
- Enhancement of People’s Well-being
- Structural Reform
Following years of investment boom, China needs to address overcapacity and misallocation of resources in addition to significant societal challenges.

Double GDP

Double income

Develop service industry

Grow consumption

Foster innovation

Digitise traditional industries
China’s demographic make-up is changing: the country now has the world’s largest middle class but also a rapidly aging population.
With the official end of the one child policy, the Chinese government is hoping to bolster the amount of working age people.

2
Amount of children allowed per couple

35
Years the One Child Policy was in effect

400 m
Births prevented

66%
Proportion of working age people (16 – 59)

90 m
Couples eligible for a second child
Trends in China 2016

China’s growth and size of the economy, combined with the industrial focus of our business, lays a strong foundation for our participation in the above average growth of most clients, especially in three sectors:

**Industry Trends**

- High and increasing cost of labour
- Factories will replace staff with machinery
- Need for efficiency and higher precision

**Hot Topics**

- Stock Exchange Circuit Breaker
- Overcapacity
- Currency fluctuation
- Compliance
- Transfer Pricing
- Enforcement of rules

- Huge population in combination with scarce resources → food scandals
- Demand for high quality machinery and products
- Agriculture, processing, packaging, fulfilment

- Ageing society of 100m+ above 65 years
- Increased purchasing power
- Government’s anti-corruption drive
- Rise to market growth in the medical sector
In China, technology is advancing faster than anywhere else, with almost 2/3 of the population using smartphones. Companies must adjust to this trend to improve organisational efficiency.
While 80% of e-Commerce transactions in China are B2B, 90% of consumers only access e-Commerce via their mobile.

China is the #1 in the online world

World
3bn Netizens
42% of population is online

X

China
649mn Netizens
48% of population is online

That means that, 1 out of 5 connected devices in the planet is in China
The Chinese Consumer is spoilt by his mobile phone – the whole day long...

Start

6:00-7:00
Wakes up by mobile alarm, listens to Kaola FM while getting ready

7:00-9:00
Browses Weibo/WeChat posts from mobile, reads online news, plays mobile games on the way to office.

9:00-10:00
Uses computer to search information on Baidu for work

10:00-12:00
Brings tablet or laptop to meet with client

12:00-14:00
Orders food from Eleme, shares dining pictures on WeChat Moments; purchases snacks in convenience store paying with Alipay

14:00-17:00
Works while online music playing via Xiami, chats with friends on QQ/WeChat, checks the news online on Toutiao.

17:00-21:00
Searches Dianping to find a place to eat, chats with friends on WeChat or browses Meipai while eating; uses Didi to taxi home

21:00-24:00
Watches a movie at home via tablet Youku, writes a movie review on Douban; plans the next trip with Qunar; chats on WeChat and shops at Taobao, Tmall, or JD

E-Commerce
China’s Answer – “Made in China 2025”

Innovation in China is top-down as opposed to bottom-up in most developed countries...

**Affected industries**
- Energy saving vehicles
- Power Equipment
- Medical devices
- New Materials
- IT
- Rail
- Machinery
- Aerospace Equipment
- Marine Engineering

**Why does China do it?**

- Increase of industrial competitiveness
- Reinforce strategic emerging industries
- Ecological development
- Water and energy conservation

“The initiative will not only push forward the transformation and upgrading of the manufacturing industry, but also push development”

*Su Bo, Vice Minister, Ministry of Industry and Information Technology*

Source: China Ministry of Industry and Information Technology
ICFC – In China for China

As FIEs growth is not sustainable only in high end products, they develop “good enough” products for the medium segment – competing fiercely with locals who are upgrading.

High end
- Foreign origin/local produced with foreign design
- Specialised function with own tech know-how
- Target FIE/JV customers and large domestic customers
- Compete with international/ top ASEAN competitors

Mid end
- Local design and production of Chinese standard
- Compete with “Best Chinese offers”
- Target Medium-to-Large domestic customers and International customers

Low end
- Chinese manufacturer products
- Target Small-to-Medium domestic customers
"One Belt, One Road"

Will OBOR address China’s overcapacity in many industries in the proven cluster+network model by integrating infrastructure, trade, finance and populations?

- 21st-century Silk Road
- Belt = land route
- Road = maritime route
- Finance: USD 4 t foreign currency reserves
- “Diamond Economic Zone”
Highlight: Corruption

As China steps up its anti-corruption measures, foreign companies must make sure they are compliant and implementing preventative measures.

- Anti-corruption initiative shows positive results
- High-ranking officials (“Tigers”) and numerous public servants (“Flies”) have been arrested
- Citizens are encouraged to report corruption
- Luxury industry has seen substantial losses
- Long-term campaign or just change of administration?
OBOR and China’s 13th 5YP will present a number of new opportunities for German companies in Western China.
The Fiducia Manager Team – Talk to Us!

How Fiducia Can Help You:
- obtain research and advice
- set up / buy / restructure a company
- outsource accounting and treasury
- source products
- sell products and services
- recruit talent