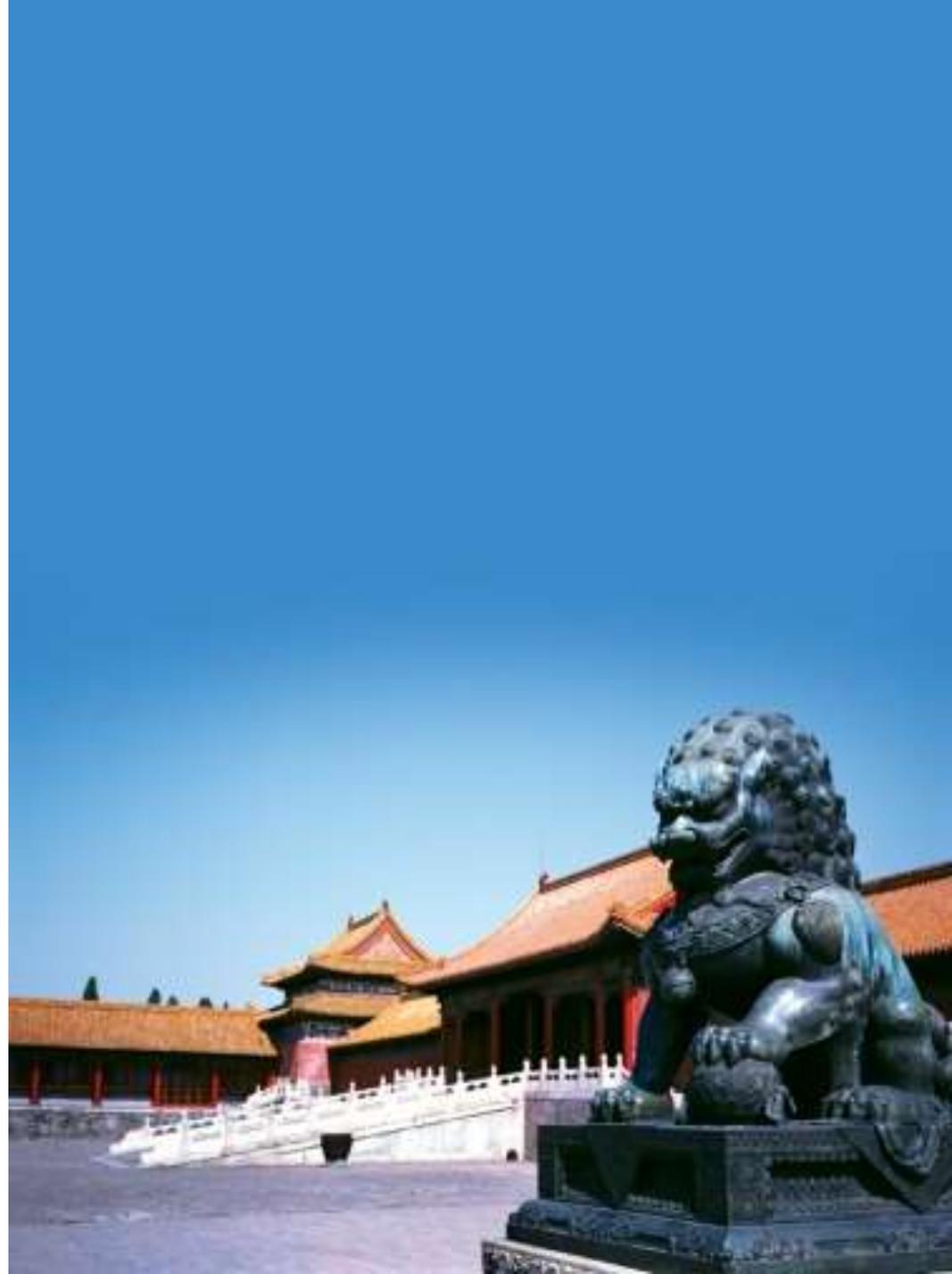




Focuses and Major Impacts of 2016 NPC and CPPCC Sessions

Deloitte Research
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Main targets for the 13th Five-Year Plan period



- Average GDP growth: >6.5%
- Double the 2010 per capita personal income by 2020, and increase the per capita overall labor productivity to over RMB120,000



- Days of good air quality in prefecture-level and higher level cities: >80%
- Total water consumption: <670 billion cubic meters
- Energy consumption per unit GDP: down 15%



- R&D spending: 2.5% of GDP
- Science and technology's contribution to economic growth: 60%



- Lift 55.75 million rural residents out of poverty
- Renovate 20 million houses in shanty town
- Prolong average life expectancy by one year



- Permanent urban residents by 2020: 60% of the total population
- Registered permanent urban residents: 45% of the total population
- High-speed railways link 80% of big cities



- Increase the retention rate of compulsory education to 95%
- New urban jobs: 50 million within five years
- Provide training for 40 million rural migrant workers

Top ten priorities and highlights (I)

1. Steadily improve macroeconomic policies

- Strengthen proactive fiscal policies, as projected fiscal deficit is RMB2.18 trillion.
- Implement prudent and flexible monetary policies, M2 money supply growth and aggregate financing growth: approx. 13%.
- Meet rigid and improvement housing demands, implement city-specific policies to decrease housing inventory.
- Replace the business tax with VAT in the real estate sector, make sure tax reduction covers all sectors.

2. Supply-side reform

- Strictly control newly added capacity, eliminate outdated capacity, and resolve overcapacity.
- Accelerate development through reform, improve SOEs', especially central enterprises' structural adjustments, and deepen equity diversity reform.

3. Tap into the potential of domestic demands

- Strive to improve supply of products and services.
- Support consumption growth in services such as elder care, health, housekeeping, education, training, cultural, and sports.
- Invigorate the used car market; speed up the construction of urban parking lots and electric vehicle charging facilities.

Top ten priorities and highlights (II)

4. Regulate financial capital market

- Build up modern financial regulatory system.
- Regulate and develop Internet finance.
- Capital market reform and legislation construction.
- Rectify and regulate financial order, crack down against financial fraud, illegal fund-raising, and crimes in securities and futures markets.

5. Strengthen innovation

- Exert the multiplier effects of mass entrepreneurship and innovation and “Internet Plus” to aggregate mass knowledge and power.
- Encourage online and offline interaction, facilitate the transformation and innovation of brick and mortar businesses.

6. Develop modern agriculture

- Improve policies for strengthening agriculture to benefit farmers and enrich rural areas.
- Deepen rural reform, and expand channels for famers to find jobs and increase incomes.
- Improve agricultural quality, efficiency, and competitiveness.

Top ten priorities and highlights (III)

7. High-quality opening up

- Increase overseas investment and promote bilateral and multilateral trade negotiations.
- Attract high-quality foreign investment and ease market access

8. Green development

- 2% decrease in chemical oxygen demand and ammonia nitrogen emissions, a 3% drop in sulfur dioxide and nitrogen oxide emissions, and continuous fall in the density of fine particular matter (PM2.5).
- Actively promote environmentally friendly buildings and construction materials, with emphasis on developing steel understructures and prefabricated modules.
- Improve urban planning, development, and management, and construct at least 2,000 kilometers of utility tunnels.

9. Promote people's well being

- Create of at least ten million new urban jobs, and keep registered urban unemployment rate within 4.5%.
- Further reform the household registration system and relax restrictions on eligibility for urban residency.
- Advance the coordinated reform of medical services, medical insurance, and the medicine industry.

10. Government functions

- Deepen reforms to streamline administration, delegate more powers, improve regulation, and provide better services.
- Improve incentive mechanisms and mechanisms to allow for and address mistakes.

Steadily improve macroeconomic policies

- (+) Decreases in overcapacity, drops in costs, and improved business performance will help facilitate industrial structural adjustment.
- (+) Specialized rewards will be provided to resettle employees laid off from enterprises. In other words, fiscal, financial, and other policies will be improved to support industrial structural adjustment.
- (-) Cut in economic growth target will influence the confidence of enterprises
- (▲) Stabilizing structure and improving leverage ratio: Despite room for improving the leverage ratio of the household sector(far lower than that of major countries), it remains difficult to increase household leverage ratios and investment

Regulate financial and capital market

- (+) Further discussions on the regulatory fragmentation ("one bank and three commissions") have exposed administrative system weaknesses, and focusing on calls for comprehensive supervision should be beneficial for advancing regulatory reform.
- (+) Slowdown in RMB globalization (ensuring the RMB exchange rate remains generally stable at an appropriate and balanced level) will help control capital and prevent exchange risk
- (▲) Despite a big financial market, it remains difficult to bring market mechanisms fully into play
- (▲) Loosening of currency policy adds new pressure on the RMB exchange rate
- (▲) Improving regulation and risk control while expanding market access could be a major challenge.

Tap the potential of domestic demand

- (+) Plenty of room for effective investment in infrastructure and people's livelihood helps to attract social capital and facilitates the reform of investment and financing system.
- (+) Support for the development of service consumption benefits the transformation and improvement of the service industry.
- (+) Support for the emerging consumption, automotive, and travel industries helps to improve consumption quality and develop new consumption opportunities.
- (▲) It remains to be seen what city-specific regulations will be issued to unload housing inventory.
- (▲) Improving the purchasing power of low- and middle-income residents is still challenging.

Strengthen innovation

- (+) Driving intelligent manufacturing has a positive impact on Chinese enterprises in improving international competitiveness and moving up to the upstream of the industrial value chain.
- (+) Implementation of “Internet Plus” initiative serves as a strong engine for accelerating the development of different industries.
- (+) Encouraging mass entrepreneurship and innovation provides opportunities for private capital to flow into entrepreneurship and innovation and also expand investment channels.
- (▲) Research and development innovation requires financing for enterprises. Various financing channels and models need to be explored and established, and the impact of research and development innovation on financial markets is also a matter of concern.
- (▲) Technologies like big data and cloud computing may bring new format risks and potential information security risks. Supporting policies have yet to be implemented.

(+) Positive impact; (-) Negative impact; (▲) Uncertain impact

Supply-side reform

- (+) Traditional industries make up a declining share of the economy while the service industry has a growing share.
- (+) Lower cost of enterprises: price reform of resource products, tax and fee reductions, and interest rate liberalization.
- (+) SOEs in competitive industries see active mergers and restructurings.
- (-) Cutting overcapacity causes more regional employment pressure, which can not be effectively counteracted by the service industry in the short term.
- (▲) With concerns about employment and tax, local governments might be reluctant to shut down “zombie enterprises.” “Zombie enterprises” are also likely to be eliminated due to capital chain rupture, high cost, and environmental protection.

High-quality Opening up

- (+) The “Belt and Road” will drive Chinese enterprises’ investment in the countries along the “Belt & Road” routes and set up a new supporting financing platform for key sectors: overseas capacity investment, cross-border e-commerce, overseas infrastructure investment, and free trade.
- (+) Chinese enterprises focus overseas M&As on “quality growth,” with increasing transactions in high value-added sectors and consumption-related sectors, therefore attention will be paid to target assets in North America and Europe
- (+) Market access restriction is relaxed for foreign enterprises in high-end manufacturing, finance, culture and education, Internet, logistics and healthcare.
- (▲) Net investment importers turn into net investment exporters, exposing themselves to risks from the global economy, geopolitics, and multilateral and bilateral trade environments.

Green development

- (+) Using less coal will promote the rapid development of clean energy including nuclear power, wind power, and solar energy with stable growth of demands on natural gas and new energy vehicles.
- (+) Green buildings and construction materials and the development of steel and prefabricated buildings can help absorb the capacity of the steel industry and at the same time conserve energy and reduce emissions.
- (+) The construction of utility tunnels means opportunities for infrastructure investment, playing a supportive role in economic growth and bringing chances to expand certain industries including pipe network materials, safety monitoring, and engineering construction
- (▲) It is difficult to solve the capital problem for huge investments in utility tunnels—a limited central budget and high liabilities of local governments with big challenges of boosting social investments

Deloitte impacts

Opportunities

- Advancing the “Belt and Road” and increasing overseas investments and M&As in high-tech, service, and consumer sectors.
- The M&A target scope is expanded due to the reduced valuation of domestic enterprises caused by high debt. SOEs will see active mergers and restructurings.
- Clients’ diversified demands on improving operation efficiency, financing management, project management throughout the lifecycle, optimization of the supply chain, cost management, digitalization, etc.

Challenges

- Profits are further squeezed by economic slowdown, currency volatility, and rising manpower costs.
- Clients are more cautious about decisions to purchase consulting services.
- The enhanced competitiveness of local professional services players along with the engagement of more foreign professional services enterprises increases competitive pressure.



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