



China's 12th Five-Year Plan

*How it actually works and what's
in store for the next five years*

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10 December 2010

EXECUTIVE SUMMARY

- In October 2010, the Communist Party of China's (CPC) Central Committee approved the guiding principles of China's *12th Five-Year Plan for National Economic and Social Development* (FYP) (2011-2015). The National People's Congress (NPC) will ratify the plan in March 2011. The 12th FYP's guiding principles will promote the government's focus on "inclusive growth," which means ensuring the benefits of economic growth are spread to a greater proportion of Chinese citizens. The plan's key themes are rebalancing the economy, ameliorating social inequality and protecting the environment.
- Some important initiatives of the economic rebalancing theme in the 12th FYP include a notional GDP growth rate target of 7 percent, promoting consumption over investments and exports, closing the income gap through minimum wage hikes and increased social safety nets, and a range of energy efficiency targets.
- Three sectors that will receive a major boost from the 12th FYP are health care, energy and technology. Not only have segments of these sectors been singled out as China's new Strategic Emerging Industries (SEIs), but they also dovetail with the 12th FYP's emphasis on "inclusive growth." The government is encouraging foreign business participation in SEI development, but to what extent is a key question given China's indigenous innovation drive.
- Foreign business can expect a changed cost structure during the 12th FYP period. Increased costs could result from minimum wage and value-added tax hikes, raw material resource price reforms, and environment-related taxes. On the positive side, foreign business can expect the government to continue opening up China's services sector, to further develop talent recruitment through education reform, and to strengthen the country's intellectual property (IP) regime.
- Proposed reforms in the 12th FYP will introduce additional stakeholders into various industries as well as new and complex regulations. Foreign business should continue to update their understanding of these new stakeholders and regulations.
- The implementation of certain 12th FYP goals, such as increasing technological capabilities in a wide range of sectors, will have Chinese regulators welcoming advice and training from experienced foreign companies. This will offer opportunities for foreign companies to help shape implementation of the plan.

CHINA'S FIVE-YEAR PLANNING PROCESS

China's policy process is not known for surprises; rather, reflecting the heritage of a command economy and the engineering background of many senior leaders, the Chinese policy establishment prefers a predictable and steady regulatory environment conducive to meeting its long-term development goals. China's Five-Year Plan for National Economic and Social Development is a critically important tool used by the government to achieve its development objectives by mapping out in five-year cycles the country's future progress via guidelines, policy frameworks, and targets for policy-makers at all levels of government.

China's FYPs are blueprints: they provide overall objectives and goals related to social and economic growth and industrial planning in key sectors and regions. Although most consider the FYP to be a single document, the FYP represents a complex web of Chinese policy-making, containing previously-implemented regional and long-term development plans and hundreds of targeted policy initiatives, all of which undergo constant review and revision over the course of the five-year cycle. Though this process might seem rather chaotic, the FYP process is

increasingly standardized, open and subject to significant oversight within the wider bureaucracy.

However, while the FYP formation process is becoming more efficient, effective implementation of FYP objectives remains difficult. Local government officials have been known to either slavishly follow plan targets or not follow them at all: during the 11th FYP period (2006-2010) the country's target annual GDP growth rate was routinely exceeded, while energy intensity targets led to forced electricity brown-outs in several cities in late 2010 to meet those targets. The 11th FYP was also slow in applying fundamental structural changes to China's economy that top leaders say are needed – for example, reducing fixed asset investment as a share of GDP and increasing domestic consumption.

China's next planning cycle is about to begin: In October 2010, the 12th FYP's Guidelines were approved by the CPC Central Committee and the NPC will ratify the plan's Outline in March 2011. We outline in more detail the cyclical nature of the preparation that goes into a FYP in an appendix (see page 10).

THE TWELFTH FIVE-YEAR PLAN

China's NPC will soon release the 12th FYP Outline. A focus of the 12th FYP will be on the quality, rather than the rate, of growth, as well as ensuring more Chinese citizens benefit from that growth. Three key themes in the 12th FYP are economic restructuring, social equality, and environmental protection.

The two-year drafting process for the 12th FYP (2011-2015) is nearing its end: On October 18, 2010, nearly 200 senior leaders of the State Council and the CPC Central Committee endorsed the 12th FYP Guidelines. Between now and December 31, 2010, the NDRC is encouraging the public, including foreign business, to submit their comments on FYP guidelines to 125@ndrc.gov.cn. NDRC Director Zhang Ping has said that any potential revisions to the 12th FYP, as well as the setting of the plan's mandatory targets, will not take place until after these comments are fully digested. In March 2011, the 4th Plenary Session of the 11th NPC is scheduled to give the 12th FYP Outline final approval. Although some details of the 12th FYP may well be modified between now and the NPC's action in March 2011, the broad themes of the plan should remain unchanged. Below is an approximate timeline of the 12th FYP:



The 12th FYP is expected to pick up where the 11th FYP (2006-2010) left off in terms of broad policy direction. The 11th FYP was considered a major policy shift for the Chinese government as it moved away from a focus on “growth at any cost” toward a more balanced and sustainable growth pattern, under the “harmonious society” (和谐社会 or *hexie shehui*) and “scientific development concept” (科学发展观 or *kexue fazhan guan*) policy frameworks.

The development of the 12th FYP, however, is taking place in a markedly different internal and external environment: the global financial crisis, rising property prices and increased risk of social instability are all salient issues in China that will be prominently addressed by this plan.

The financial crisis, in particular, has made Chinese officials aware of the importance of creating a growth model that moves away from the country's overreliance on investments and exports and toward consumption-led growth. Increasing consumption would also help meet the government's goal to raise income and social-benefit levels for all of China's citizens.

The 12th FYP will also ensure policy continuity during the upcoming leadership transition in 2012/13, when President Hu and Premier Wen are expected to be replaced by Xi Jinping and Li Keqiang. Xi has recently made public statements that he intends to follow Hu and Wen's policy initiatives throughout the entire 12th FYP period.

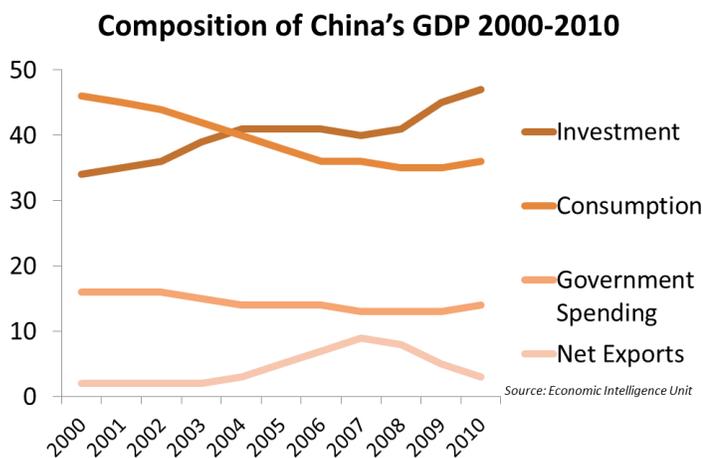
RESTRUCTURING THE ECONOMY

While economic rebalancing has been a government priority for many years, the sharp decrease in Chinese exports during the financial crisis, leading to the layoff of millions of factory workers, underscored the importance for Chinese decision-makers of moving to a more balanced growth structure. As China looks inward for growth, key objectives for the 12th FYP will be to shift the relative importance of GDP components – from the current reliance on fixed asset investment (FAI) and exports – to a greater emphasis on consumption.

Economic rebalancing has been a consistent priority for the government for several important reasons. These include the perceived unsustainability of maintaining an exceptionally high growth rate, large global trade and foreign exchange imbalances that have led to tensions between China and its major trading partners, the desire to spread the fruits of decades of growth to a wider proportion of the population and the inefficient use of resources that accompanies high levels of FAI by the government at all levels. The 12th FYP will include policies that support a lower GDP growth rate, consumption-driven growth, upgraded industries, strengthened “national champions” and more backing for the government's indigenous innovation drive.

- **Growth rate:** No explicit annual GDP growth target for the plan period has been announced, but there is widespread speculation that Chinese planners will target 7 percent, down from 7.5 percent in the last plan. This goal will ensure that employment levels remain on target, allow the government to reach its 2020 GDP-per-capita goal, and help reign in excessive spending by provincial governments. A lower rate will also allow officials to reduce their focus on FAI and give them breathing space to set in train policies that will slowly increase consumption without having to unduly focus on ambitious growth targets. As the 11th FYP period saw a GDP growth rate of nearly 11 percent, most analysts agree that the government will try harder to actually enforce a lower rate this time around.
- **Strategic Emerging Industries:** No longer content with being considered the “world's factory,” Chinese planners have included several preferential tax, fiscal and procurement policies designed to develop seven “Strategic Emerging Industries” (SEIs). Planners hope these industries will become the backbone of China's economy in the decades ahead, and they have been chosen sectors where Chinese corporations are expected to succeed on a global scale. The seven industries are biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials, and next-generation IT. The government is reportedly prepared to spend more than RMB 4 trillion on these industries during the 12th FYP period, with an aim to increase SEI's contribution from today's approximately 5 percent of GDP to 8 percent by 2015 and 15 percent by 2020.

- Consumption:** Many expect that the government's new catchphrase for the 12th FYP period will be "inclusive growth" (包容性增长 or *baorongxing zengzhang*). The 12th FYP is expected to strongly emphasize the importance of shifting to consumption-driven growth for several hoped for outcomes: reducing income disparity, moving away from FAI because of overcapacity concerns, as well as reducing



China's dependency on exports and thus reducing its current account surplus and need to maintain an artificially weak currency. While some Chinese experts are reportedly expecting consumption to rise from the current 35.1 percent to around 50-55 percent of GDP by 2015, a State Council official recently predicted that it would only increase to 40 percent (by comparison, the United States is currently 71 percent, Brazil is 63 percent, and India is 54 percent). In order to enable consumption to grow quickly, the government plans to increase household disposable income, most likely through raised minimum wages and increased social safety nets, such as health care and social welfare payments.

- Industrial upgrading:** Adding value to Chinese industrial output has been a consistent government priority and the 12th FYP is expected to include policies that promote investments in new manufacturing equipment and technology, which in turn will assist China in meeting its energy efficiency goals (see "Protecting the Environment" below). Specific policies targeted at forcing sector consolidation can also be expected in several industries – the auto sector is a good example where the government wants to see the current 80 or so manufacturers reduced to only a few dozen tier-one and tier-two producers within a decade.

PROMOTING SOCIAL EQUALITY

President Hu Jintao and Premier Wen Jiabao have made development of a "harmonious society" a key priority for their administration, and the 12th FYP will continue that focus under the rubric of "inclusive growth," which means spreading the benefits of economic growth to a wider community. Interestingly, the 12th FYP Guidelines has changed the previous creed of "Strong State, Wealthy People" (国强民富 or *guoqiang minfu*) into "Wealthy People, Strong State" (民富国强 or *minfu guoqiang*), implying that "Wealthy People" is now the greater priority. Not surprisingly, Hu and Wen are seeking to use the 12th FYP to bed down their legacy as the first leadership team in the post-reform era with a strong focus on equality issues:

- Urban/rural divide:** The divide in quality of life indicators between China's urban and rural residents is especially large, even for a developing country, and contributes to a range of problems for the government, including mounting social unrest in rural areas. The 12th FYP is expected to reduce this gap by focusing on increasing urbanization, partially by reforming the rigid and outmoded household registration system. The 12th

FYP will also provide improved social safety nets for China's rural population, such as basic health care coverage and improved rural land distribution.

- **Regional development:** As labor costs rise on China's eastern coast, the western region will be more attractive to manufacturers. Long a government priority to drive development in that relatively less affluent region, the government will continue to grow the West through preferential policies such as land credit, lower taxes and subsidies for manufacturers looking to locate inland.

Monthly Minimum Wage by Region



- **Income disparity:** While a small proportion of individuals have become extremely wealthy, the income of many citizens has not kept pace with economic growth over the past decade. The 12th FYP will help increase income through raising minimum wage (for example, the Beijing government has recently announced its plan to increase minimum wages by 40 percent by 2015). Other policy tools will include the expansion of the government-funded social welfare and health care system and promoting labor-intensive service industries. Improved livelihoods are in turn expected to boost consumption as a percentage of GDP growth, a key goal for the 12th FYP.

PROTECTING THE ENVIRONMENT

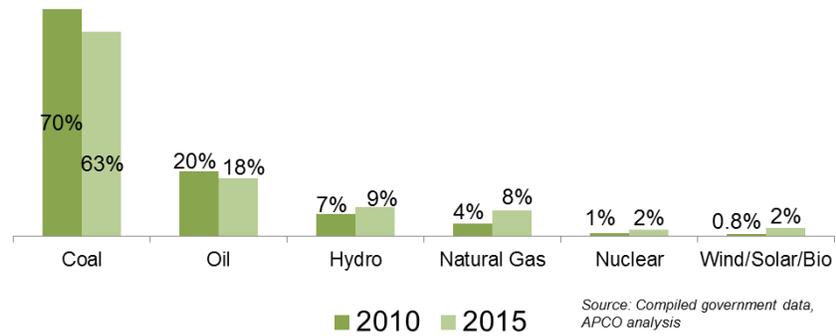
China faces severe environmental degradation for many reasons, including rapid industrialization, a reliance on coal as an energy source, a relatively large and energy-intensive manufacturing industry and lax environmental protection and enforcement. The 12th FYP is expected to focus on reducing pollution, increasing energy efficiency and ensuring a stable, reliable and clean energy supply. China's environmental goals will likely have a far-reaching effect as they will impact and shape a range of other industrial policies in a multitude of sectors.

- **Energy conservation:** The 12th FYP is expected to contain preferential measures for developing energy-efficiency technology, as well as an expected mandatory energy emissions target of approximately 17 percent (down from the 11th FYP's 20 percent).
- **Environmental quality:** For the first time, this plan could contain green indicators that will hold local government officials accountable for green development, such as water consumption per unit of GDP, and proportion of GDP that is invested in environmental protection. The 12th FYP is rumored to include a new carbon emissions target that is in line with China's recent pledge to reduce 40-45 percent of carbon per unit of GDP by 2020, especially for high-polluting and high-energy usage sectors. In order to meet that commitment, government officials have recently made statements that a carbon tax may be implemented by 2013, as well as some type of carbon trading system by 2015, the form of which is currently being debated behind closed doors. The 12th FYP also will also

contain measures for ensuring better environmental quality for cities and towns, including a “blue sky day” target and other mandatory emissions targets.

- New energy:** The 12th FYP reflects China’s pledge to have 15 percent of its energy come from non-fossil fuels by 2020 (from 8.3 percent in 2009 to approximately 11 percent by 2015). The plan includes a cap on domestic coal production, China’s largest

China’s Estimated Energy Consumption



energy source and a major contributor to the country’s environmental problems. The plan also contains significant support for nuclear and hydropower development with wind power seeing a threefold expansion in capacity. Domestic natural gas consumption will double over the 12th FYP.

SECTORS POISED TO BENEFIT

APCO has identified three sectors that will particularly stand to benefit as a result of the 12th FYP: health care, energy/environment, and technology. Not only have certain segments of these sectors been identified as “Strategic Emerging Industries,” but they dovetail with the emphasis of the 12th FYP on “inclusive growth,” another reason why they can expect to receive special policy backing and funding from the government.

In combination with heavy government investment and preferential tax, fiscal, and procurement policies, government officials have emphasized the important role foreign investment will play in the development of the healthcare, technology, and energy & environment sectors. Foreign business has been encouraged to establish R&D bases in China and will be allowed to apply with Chinese firms for government-funded R&D projects. However, some uncertainty remains around the extent to which foreign companies will be allowed to participate in the growth in these sectors given the government’s wider indigenous innovation goals. Protection of foreign intellectual property (IP) is another concern.

HEALTH CARE

The 12th FYP will focus on creating a modern health care industry through continued health care reform, consolidating the pharmaceutical distribution sector and encouraging significant investments in biotechnology.

Health Care System Reform Continued

In 2009, China released an aggressive health care reform plan that included short-term objectives such as greatly expanding access to basic medical coverage for citizens, modernizing the country’s health care infrastructure and improving grassroots health care delivery. The 12th FYP is expected to support these health care system reforms with specific

policies and funding, including broader basic health care coverage, expanded infrastructure for grassroots medical networks, public awareness in disease prevention, improved health care administration, creation of national health care benchmarks and standards and heavy investments in health care IT.

Pharmaceutical Sector Restructured

China hopes to consolidate and commercialize its pharmaceutical distribution industry throughout the 12th FYP period. The current structure of many of the 13,000 small distribution enterprises operating largely within the grey economy is a contributing factor to the high mark-up of drugs and risks for consumers buying fake or shoddy products. Along with establishing large national pharma champions, the government will also consolidate many of the smaller drug distribution companies in an effort to bring pharmaceutical production and sales closer together, thereby reducing drug prices. Coupled with stringent regulations, integration will take place through preferential policies and financial support to encourage larger companies to acquire smaller ones. The government plans to consolidate the industry around one or two national-level companies, with revenues reaching RMB 100 billion. At the regional level, the government plans to create 20 major companies, with sales of nearly RMB 10 billion each.

Biotechnology Promoted as an SEI

The government has announced that biotechnology will be one of China's key SEIs, most likely due to the sector's potential for large productivity gains and its ability to solve health problems associated with China's rapidly aging society. The plan will support the development of innovative biotech products, high-end medical devices and patented medicines. The government will reportedly put forth a spending package of more than RMB 12 billion for R&D of new drugs from 2011-2015.

ENERGY AND THE ENVIRONMENT

Meeting China's increasing energy demand, while simultaneously reducing pollution, has been a long-term priority of the government. During the 11th FYP, for example, the government's allocation of RMB 200 billion for energy efficiency and environmental protection measures allegedly created a large knock-off effect of generating an additional RMB 2 trillion in economic activity. The government has said that China's investment in the environmental protection industry during the 12th FYP period will exceed RMB 3 trillion, with the industry growing by 15-20 percent annually, with a huge potential for international cooperation.

In terms of energy sources, China's overall energy objective during the 12th FYP will be to maintain coal as the dominant source of energy, while steadily increasing the proportion of renewable energy.

Consolidation Continues in Coal Sector

The government plans to continue with the consolidation of coal mining companies: about 11,000 coal enterprises will be reduced to 4,000, with eight to 10 coal companies expected to account for nearly two-thirds of all coal production by 2015.

Nuclear and Hydropower Big Winners

The government has announced that it will structure new energy policies around hydro and nuclear power. China's 11 nuclear power reactors currently account for 1 percent of the nation's total power capacity, but by 2015 will double, with 25 nuclear power plants in operation. Hydropower's capacity will increase by 50 percent by 2015.

Further Development of the Power Grid

A key government priority is the further development of the country's ever-struggling power grid (by the end of 2009, 30 percent of China's wind farms weren't grid-connected), with plans for the large-scale construction of a smart grid beginning over the 12th FYP period. State Grid's investments will reportedly exceed RMB 17 billion during this time.

Heavy Spending for Energy and Environment Sectors

Three of the seven SEIs are devoted to the energy and environment sectors: "Energy Efficiency and Environment," "New Energy" and "New Energy Vehicles." For the new energy sector, China aims to develop advanced technology in the nuclear, solar and wind sectors. For energy-efficiency and environmental conservation sectors, the focus will be on waste recycling and clean coal technologies. For new energy vehicles, China is focused on battery cell technology and is also aiming for an annual production of 1 million electric vehicles by 2015.

TECHNOLOGY

A key priority of the 12th FYP is for China to transition from "Made in China" to "Designed in China." In order to achieve this goal, the government plans to heavily invest in science and technology education and R&D, further develop China's intellectual property rights system and support "Next-Generation IT" as an SEI. China's indigenous innovation drive will also continue to play a central role in this sector throughout the 12th FYP period.

Indigenous Innovation Supported

China hopes to improve indigenous innovation capabilities in technology through the use of several tools, including:

- **Research & Development:** The government will heavily invest in science and technology R&D in order to bring about key breakthroughs in targeted technology subsectors, such as core electronic devices, integrated circuits, life sciences, space, marine, earth sciences and nanotechnology.
- **Intellectual Property:** China plans to continue its efforts to strengthen IPR creation, use, protection and management, particularly through support for companies that provide those services. This is an area where there is much room for progress.
- **Administration:** The 12th FYP plans to strengthen fiscal and financial policies that support high-tech industry, including updating research funding management and venture capital investment systems.
- **Commercialization:** A key goal - and challenge - for China will be to get the research undertaken at government-sponsored universities and research institutions to the marketplace. The government hopes that both large enterprises and SMEs will increase their R&D investments as well.

"Informatization" Increased

China plans to upgrade the technological capabilities of private and public services, including "triple play" services (the convergence of telecom, broadcasting and Internet networks), e-commerce, and e-government and statistics systems.

Education Sees Heavy Investment

The 12th FYP stresses the need for higher education reform in science and technology, as well as the importance of developing a human resources strategy for finding and nurturing talent.

Initiatives include improving scientific achievement evaluations and rewards system, encouraging even more highly-educated overseas Chinese to return to China to work and increasing investments in human capital.

Next-Generation Information Technology Singled Out

Next-generation IT has been selected as one of China's SEIs. China is particularly interested in accelerating the creation of next-generation information networks, mobile communication and the Internet. In addition, the government plans to invest in R&D of the "Internet of things" and cloud computing, and develop digital and virtual technologies.

IMPLICATIONS FOR FOREIGN BUSINESS

Industrial upgrading presents both opportunities and challenges: The government's plan to increase SEI's share of GDP by government investment and fiat should yield significant opportunities for foreign companies due to the incentives that will be created for private investment. However, given China's current drive to develop its indigenous innovation capabilities, these preferential policies may be biased toward domestic firms. This could be additionally problematic if the government decides to use its government procurement market to develop these industries, given its earlier pledge to develop a national procurement list that favors domestic companies. Foreign firms must also be aware of the government's proclivity to "re-innovate" foreign technology. Either way, foreign business should monitor China's SEI policy closely and look for opportunities to inject comment and input into its development. Foreign firms may also consider the use of partnerships with local companies to better access the significant funding opportunities available.

Changes to the business environment: If the 12th FYP objectives are fully implemented, foreign business can expect costs to both rise and fall. Increased costs could result from proposed minimum wage hikes, value-added tax hikes, raw materials resource price reforms, as well as the implementation of potential environment insurance plans, carbon markets and other environment-related taxes. However, there are benefits to foreign business embedded in this plan, as well. Foreign companies can expect the government to continue its focus on opening up China's service sectors, further developing its talent recruitment through education reform and strengthening the country's IP regime.

A more complex operating environment: Proposed reforms in the 12th FYP will introduce additional stakeholders into various industries. Foreign business should continue to update their understanding of relevant stakeholders emerging as a result of the 12th FYP, the development of SEI and other reforms, and begin developing targeted engagement strategies. The plan will also likely introduce a host of new regulations. A clear understanding of the changes in China's regulatory environment as a result of these developments, coupled with robust relationships with key institutions and actors involved in its execution, will enable foreign business to better monitor potential issues and effectively inject their views into the policy process.

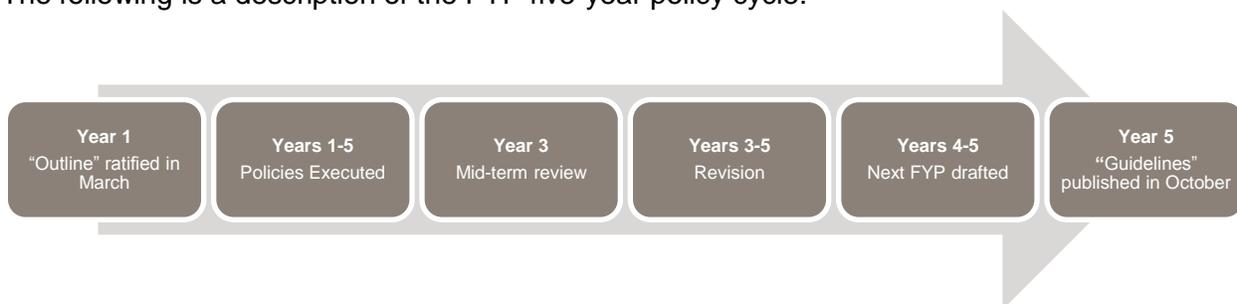
Seeking views from foreign businesses: The implementation of certain 12th FYP goals, such as increasing technological capabilities in a wide range of sectors, will have Chinese regulators welcoming advice and training from experienced foreign companies, offering an opportunity to help guide implementation. This assistance could range from informal consultations to more

formal programs under the rubric of corporate social responsibility, improving understanding and institutionalizing government relationships.

APPENDIX: FIVE YEAR PLAN DEVELOPMENT

The FYP as we know it today is radically different from the overarching blueprint imported from the USSR at the time of the PRC's founding. First of all, the name has been changed from “计划 or *jihua*” (plan) to “规划 or *guihua*” (program) reflecting its transformation from a straightforward list of economic objectives to a more general guideline for both economic and social policy goals. Second, over the past three decades, the government has ceded many of its former powers to the market, and policy control has been relatively decentralized. This means the implementation of any nationwide policy necessarily requires a lengthy process of consultation and coordination. Third, the document that most believe to be the FYP is merely the document that sets off the five-year policy cycle. Hundreds, if not thousands, of policies, regulations and plans are developed by all levels of government over the entirety of the five-year period. Finally, even though it remains something of a closed box, light is increasingly being shed on the FYP process itself: at several points throughout FYP development and implementation, China's planners seek the expertise of hundreds, if not thousands, of Chinese officials at all levels of government, as well as the views of domestic and foreign institutions. The received views are then funneled up and down government channels, and some of the ideas are integrated into the plan itself.

The following is a description of the FYP five-year policy cycle:



Years 4-5 of the Previous FYP Cycle: Next FYP Drafted

Near the end of the outgoing FYP, the NDRC's Strategic Planning Department begins preparing for the next plan by convening a task force of specialists that will create draft proposals regarding the multitude of issues that the government will address within the plan. The task force will receive high-level guidance from CPC organs such as the Central Committee and the Politburo.

While the NDRC task force begins its preparations, municipal and provincial-level governments begin drafting their own policy proposals with their own task forces and experts. Draft proposals from all levels of government are vigorously debated in house and then ultimately validated by outside third parties, including contracted universities, think tanks and research institutions both foreign and domestic.

Year 5 of the Previous FYP Cycle: Guidelines Formed

In the last year of the outgoing FYP, national ministries and local governments will submit their finalized draft proposals to NDRC, who will then lay out the FYP's basic overarching principles. The guiding principles go through two rounds of review and revision by the Central Committee, and then the "Guidelines" (建议 or *jianyi*) are published during its October plenary session. The Guidelines' publication sets off numerous local government plenaries who in turn will publish their own local FYP Guidelines. After publication of these Guidelines, public opinion, both foreign and domestic, is sought.



Year 1: Broad Outline Ratified

A more detailed version of the FYP's guidelines, the "Outline" (纲要 or *gangyao*), is submitted to the NPC for ratification the following March. This document is what most consider to be the "Five-Year Plan." While more detailed than the Guidelines (it contains specific plan targets, see "FYP Targets"), the Outline is still a very broad policy document. Once the Outline is endorsed by the NPC, each province, municipality and industry regulator will then issue their own Outline, followed by detailed policies called "Special Plans" (专项规划 or *zhuanxiang guihua*).

Years 1-5: Policies Executed

"Special Plans," created at all levels of government, are the first documents that specify how the broad objectives of the FYP are to be realized. These policies are detailed, covering specific industries and issues as well as plan administration and implementation. Departments named in Special Plans then issue work plans that explain how they are to fulfill their responsibilities. Local DRCs (NDRC's provincial surrogate) are usually the lead agency for most Special Plans. The next step is the issuance of a plethora of policy documents that will detail how implementation will occur on the ground.

Years 3-5: Plan Monitored and Reviewed

Throughout the entire FYP period, local DRCs will monitor the plan's quantitative and qualitative indicators and funnel those findings up to NDRC. The FYP also goes through a formal mid-point review process at all levels of government, with government officials and outside experts participating, including the World Bank. The review's objective is to monitor the FYPs progress as well as determine whether its targets need to be modified. At the mid-point review, preparing for the next FYP will begin, and the FYP cycle starts anew.

FYP TARGETS

Out of the 22 specific targets contained in the 11th FYP Outline, eight were compulsory ("restrictive" or 约束性 or *yueshuxing*), including energy efficiency, pollution control, and population reduction. The other 14 targets were guidelines ("predictive" or 预期性 or *yuqixing*) and did not carry as much weight. The incentive for local officials to execute the targets highly valued by Beijing (like energy efficiency) is closely tied to the official's career progression within the CPC.

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