

China's New Five-Year Plan

and its Impact on the Life Sciences Industry

What has happened?

China has released its 12th Five-Year Plan ("FYP"), covering 2011 to 2015. The FYP sets out the Chinese government's overarching strategy and targets for economic and social development during the next 5 years and traditionally serves as a blueprint for the implementation of governmental policy at all levels. The release of the FYP will be followed by a roll-out of new laws, pricing policies, financial incentives and investment support aimed at implementing the objectives set out in the FYP. Government officials at all levels will be assessed based on, among other things, their implementation of the guidelines set out in the FYP.

When did it happen?

The 12th FYP was approved by the People's Congress of China on March 14, 2011. The FYP will be implemented and managed by the Chinese government at all levels with immediate effect.

What is the purpose?

Even after more than 30 years of opening up of China's economy to the outside world, around 50% of the nation's GDP is attributed to state-owned enterprises. Accordingly, the central planning-style FYP is certain to have a significant impact on China's economic and social development over the next 5 years.

The 12th FYP seeks to address rising inequality and create an environment for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social safety net. In respect of the life sciences sector, the FYP aims to improve living standards and life expectancy, offer better medical services and facilities as well as increase participation in medical insurance schemes.

The FYP represents a shift in China's economic model. Urbanization and industrialization will continue, but growth is unlikely to follow the pattern of the past decade. There will be a focus on greater efficiency around existing infrastructure, on increased domestic consumption and on rural and inland development.

1. Economic Targets

The 12th FYP sets the following key economic targets:

- GDP to grow by 7% annually
- 45 million new jobs to be created in urban areas
- urban unemployment rate to be limited to 5%
- service sector contribution to GDP to be increased by 4%
- urbanization to be increased by 4%

2. Push for Innovation

The 12th FYP indicates China's determination to push for innovation. China will:

- further encourage enterprises to conduct technology research and development by granting more incentives and improving IP-related legal protections (which should lead to better IP law enforcement)
- expedite the establishment of an enterprise-oriented technology innovation system
- promote the establishment of technology innovation alliances between enterprises and universities

To advance technology research and development, the FYP sets the following targets:

- expenditure on research and development will account for 2.2% of GDP
- there will be 3.3 patents for every 10,000 people

3. *Impact on the life sciences industry*

According to the 12th FYP:

- China's population will be controlled at no larger than 1.39 billion
- Life span per person is expected to increase by one year
- the rate of participation in basic medical insurance will be increased by 3%
- China will encourage and guide the establishment of medical institutions and relax restrictions on foreign investment in medical institutions

In the next five years, there will be increased opportunities for leading US healthcare providers to pursue wholly-owned investments in health services subsidiaries in China, although such investments may need to be structured through Hong Kong, Macao or Taiwan investors at this stage.

US medical equipment manufacturers with cutting-edge technologies and practices will be well placed to pursue opportunities to pursue organic growth and growth through M&A in China.

Dorsey & Whitney will continue to highlight issues relating to China and your business, including matters affecting the implementation of the 12th FYP. Dorsey Shanghai's Managing Partner, Peter Corne, is listed in International Who's Who of Professionals and Euromoney Asia's Leading Lawyers. He is Chair of the Energy Working Group of the European Chamber in Shanghai. He works closely with Dorsey partners in the US to assist clients to do business successfully in China and/or with Chinese parties.

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