China: planning for an urban future
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In March 2014, the Chinese Government announced the launch of its National New-Type Urbanization Plan (New Urbanization Plan). This is a major, six-year initiative with ambitious targets for 2020. And to implement it, the Government will be spending the equivalent of US$6.8t. The plan will transform China, kick-starting its next phase of economic development.

The Chinese Government has also said that it expects foreign businesses to play a key role in achieving the plan’s objectives. And the New Urbanization Plan will present opportunities in almost every sector – in transportation, health care, entertainment, construction, energy, urban planning and many others.

The New Urbanization Plan is China’s first attempt at high-level, coordinated management of urbanization. In the last 30 years, around 300 million Chinese citizens have become urban residents. Urbanization on such a scale has played a major role in China’s economic achievement. However, this process has been imbalanced. Today, eastern China is modern and populous, while western China remains underdeveloped.

Pursuing a stable and balanced version of urbanization is a vital part of China’s economic strategy. The New Urbanization Plan is designed to open up the whole of China to development – to establish the modern consumer economies of Beijing, Shanghai and Guangzhou in cities such as Linyi, Yangzhou and Zhuhai.

The New Urbanization Plan will also help to unlock the millions of citizens – and millions of yuan – tied up by the restrictions of the hukou system. These are people who have so far been invisible to Western companies. The plan pledges that 100 million rural migrants will receive urban hukou registration by 2020. By giving these people urban rights and freedoms, it is expected that there will be a substantial increase in their consumption.

Billions of dollars of opportunity to both domestic and foreign firms – both in terms of infrastructure investment and consumer spending – will be created by the New Urbanization Plan. The scale of this opportunity cannot be overestimated.

We hope that this paper will give you a deeper understanding of China’s urbanization and the global significance of the New Urbanization Plan. It will also help you to think about approaching China’s complex marketplace, providing advice on sectors, regions and working with local governments.

C.Y. Wang
EY Americas China Business Network Leader
1. Mass momentum: Chinese urbanization today

Over the past 30 years, China’s phenomenal economic growth has gone hand in hand with a transformative process of urbanization, as poor rural people have moved to the cities in search of better lives. This has supplied the workforce that has made China the factory of the world. In scope, this process has been similar to the migrations seen in Western industrializing nations in the 19th century – but in speed and scale, it is unprecedented. Over the 35 years to 2012, the proportion of Chinese people living in cities rose from 17.9% to 52.6%. It took 100 years to see a similar demographic shift in the UK and 60 in the US.¹

This migration has led to China’s cities expanding very rapidly – and to huge proportions. In the last decade, Beijing’s population grew from about 7 million to 21 million.² In total, around 300 million people have become urban residents over the past 3 decades.³ There are now 170 Chinese cities with more than 1 million inhabitants – in the US, there are 9. Los Angeles, which houses 3.8 million people, has approximately the same population as one of China’s provincial capitals. China’s urban population alone could reach 1 billion in the next 20 years.⁴

Urbanization in China over the last three decades has involved allowing market forces to attract migrants to select megacities in the east, such as Beijing, Shanghai and Guangzhou. As a result, population redistribution across the country has been uneven, and the cities that have received a high number of migrants have been put under a lot of pressure. Economically, China is now quite imbalanced: roughly speaking, western China remains rural and underdeveloped, while eastern China is urban, more modernized and much more densely populated, supporting 96% of the population.⁵

Challenges arising from urbanization

This huge demographic change has posed some real challenges for China – for both its people and the environment. Rapid population growth in concentrated areas has caused overcrowding, transport congestion and pollution in China’s burgeoning cities. And in some places, urbanization has become a serious threat to the local environment.

But the challenges arising from China’s urbanization are not simply due to overcrowding; on a global scale, China’s cities are not particularly densely populated. In fact, urban populations have grown more slowly than the cities themselves. Some of the issues arising from urbanization have been caused by over-preparation by local administrations. The unevenness of urban migration has meant that some cities, caught up in construction fever, have prepared for an influx of migrants and an economic surge that have never come.

At its most extreme, this has led to the phenomenon of “ghost cities”, where over-eager local development has produced huge, half-finished cities that currently stand all but empty, waiting for the boom.

Local governments have also had financial motivations to push forward urban development. Twenty years ago, the tax system was revised to boost central government revenues. But local governments remained responsible for 80% of spending on public services. With limited revenues and rising costs, some local administrations began seizing rural land and then mortgaging it to raise money, assuming that they would be able to pay off their debts when the local economy expanded. However, in some second- and third-tier cities, because this growth has never come, this practice has resulted in a precariously high level of local-government debt.⁶

⁵ “Realizing China’s urban dream”, Nature, p.159.
The hukou system

Many challenges have been faced by the millions of people who have moved to the city over three decades of urbanization. And a lot of these issues have been caused by China’s hukou system. Hukou is an internal Chinese passport that ties people to the place they are born (and registered). The location of a person’s registration is important, because it determines where basic state benefits, including health care, education and welfare, can be claimed.

Hukou was a sensible policy when it was introduced in the 1950s. It was designed to ensure an even distribution of people and resources by discouraging migration from the country to the city. But since then, the system has never been updated and it has caused many issues for the millions who have migrated in the last 30 years. This is because changing hukou registration is extremely difficult. Today, this means that many rural migrants, who have been city residents for years, still have hukou registrations in their rural birthplaces and so they cannot access basic services in the city.

These so-called mingong (peasant workers) account for more than a third of China’s 730 million city dwellers. By residence, China’s urbanization rate is 52.6%, but by hukou registration, it is only around 35%.7 The mingong are a ready source of cheap labor, providing about 40% of urban labor and the majority of the manufacturing and services workforces.8

Unsurprisingly, these migrants often feel that they don’t really belong in the cities. Improving migrants’ access to public services should free up their cash and encourage them to spend. Evidence suggests that if rural migrants are granted an urban hukou, their spending more than triples.9 Therefore, the successful integration of this vast migrant labor force into its cities is both a humanitarian and economic priority for China – and vital for its future.

A plan for tomorrow

The Chinese Government launched its National New-Type Urbanization Plan in March 2014. In part, it is a response to the issues that rapid urbanization has caused or exacerbated in China. However, urbanization is not just a side effect of economic growth: it is a transformative force that drives the Chinese economy. So the New Urbanization Plan is also a key part of the Government’s economic strategy, which seeks to rebalance the economy away from reliance on investment and exports and toward growth led by consumer spending.

The New Urbanization Plan is an attempt to make urbanization really work for the Chinese economy and to carry forward the remarkable growth of recent decades and to establish modern, healthy cities as the economy’s driving force.

The Chinese Government will be investing 42t yuan – that’s US$6.8t – on implementing the New Urbanization Plan over the next seven years.10 For global companies, the New Urbanization Plan is not only China’s master plan for developing the largest continental-size market that the world has ever seen, but also an invitation to become participants in such a grand economic endeavor.

Over the 35 years to 2012, the proportion of Chinese people living in cities rose from 17.9% to 52.6%. It took 100 years to see a similar demographic shift in the UK and 60 in the US.1
2. China’s dream for an urban future

The New Urbanization Plan is designed not only to address structural problems from the past, but also to chart out a vision for China’s future by rationalizing resource usage, harmonizing society, and sustaining economic growth. It calls for more balance in the pace and progress of urbanization and modernization. The Government hopes to foster the healthy consumer culture of the eastern megacities throughout the nation, helping to promote its new, consumption-led economic model.

In detail: the National New-Type Urbanization Plan

The New Urbanization Plan was three years in the making, and the result is comprehensive and ambitious.

The plan has a clear structure. Its principal aim is to “improve the quality of urbanization” and particularly for this to be “people-oriented urbanization”. It also emphasizes that the urbanization and modernization process “should be optimized, ecologically friendly, and carry forward cultural traditions.”

The plan is structured around “four tasks” and “five reforms” that establish the key targets.

### Four tasks

1. Settling rural migrants in cities in an orderly manner
2. Coordinating the development of cities and small towns into “city clusters”
3. Increasing the sustainability of cities
4. Unifying urban and rural development in the long term

### Five reforms

1. Managing the population, including reforming the *hukou* system
2. Deepening reform of land-resource management
3. Securing financing for urbanization, including tax reforms and the creation of a public-private partnership mechanism
4. Optimizing the urban housing supply for residents in different income brackets
5. Strengthening environmental protection
"The New Urbanization Plan carries a lot of expectations of deepening reforms. It is a big step in the new era of economic and social development in China."

Martin Qi, Partner, Ernst & Young (China) Advisory Limited, Government & Public Sector
As with other Chinese policy documents, the New Urbanization Plan sets forth quantified key targets to give a clearer sense of the ambitious nature of these reforms:11

<table>
<thead>
<tr>
<th>Demographics</th>
<th>2012 level</th>
<th>2020 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the proportion of urban residents (%)</td>
<td>52.6</td>
<td>c. 60</td>
</tr>
<tr>
<td>Increase the proportion of urban hukou holders (%)</td>
<td>35.3</td>
<td>c. 45</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Public services</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Give children from migrant families access to state-funded education (%)</td>
<td>n/a</td>
<td>More than 99</td>
</tr>
<tr>
<td>Expand basic state pension coverage for urban residents (%)</td>
<td>66.9</td>
<td>More than 90</td>
</tr>
<tr>
<td>Increase access to state-sponsored medical insurance for all urban residents (%)</td>
<td>95</td>
<td>98</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>2012 level</th>
<th>2020 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase use of public transport as a proportion of total vehicular transportation in cities with more than 1 million residents (%)</td>
<td>45 (2011)</td>
<td>60</td>
</tr>
<tr>
<td>Increase household access to the public water supply in urban areas (%)</td>
<td>81.7</td>
<td>90</td>
</tr>
<tr>
<td>Arrange for more wastewater to be “properly processed” (%)</td>
<td>87.3</td>
<td>95</td>
</tr>
<tr>
<td>Increase the proportion of municipal waste that is “handled in a non-hazardous manner” (%)</td>
<td>84.8</td>
<td>95</td>
</tr>
<tr>
<td>Increase broadband internet speed in all cities (megabytes per second)</td>
<td>4</td>
<td>More than 50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environment</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contain urban sprawl by limiting urban space per capita (square meters)</td>
<td>n/a</td>
<td>Less than 100</td>
</tr>
<tr>
<td>Ensure that more new buildings are “green” (%)</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Increase the proportion of prefecture-level cities meeting China’s national air-quality standard (%)</td>
<td>40.9</td>
<td>60</td>
</tr>
</tbody>
</table>

“Strong economic growth in China will be achieved by accelerating the pace of reform. This will invigorate traditional sectors such as agriculture, manufacturing and services. It should also drive growth in new sectors such as e-commerce, new energy and ICT. This presents significant opportunities for multinationals to collaborate with Chinese companies in many different sectors.”

Yew Poh Mak, EY Asia Pacific Operational Transaction Services Leader

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11 This list of key targets is adapted from the National New-Type Urbanization Plan (2014-2020) issued by the Central Committee of the Communist Party of China and the State Council on 16 March 2014.
Reforming hukou

Changing the restrictive hukou system could provide a real boost to the Chinese economy and improve the quality of life for millions of people. The New Urbanization Plan does pay a lot of attention to reform and Government spokesmen have been keen to emphasize that it is “people focused”.

In this area, the aim of the New Urbanization Plan is to resolve the challenges of hukou and give urban residents full rights as urban citizens. It pledges that 100 million migrants will receive full urban registration by 2020. However, this is subject to certain conditions: the Chinese Government hopes to attract migrants to smaller cities by making hukou regulations more lenient there, while maintaining stricter regulations in the larger cities. In full, the New Urbanization Plan will make the following changes to hukou regulations:

1. Hukou restrictions will be lifted gradually in cities of less than 1 million people.
2. Restrictions will be loosened for cities with 1-3 million residents.
3. It will be possible to apply for urban hukou registration in cities of 3-5 million people.
4. Regulations in “megacities” (populations of more than 5 million) will remain very strict.¹²

The actual process of qualifying for urban hukou will be complex, involving a system of personal credits based on qualifications, property ownership and good citizenship.

What the New Urbanization Plan means for China

Despite some vagueness in its language and on the issue of paying for the reforms, the overall tone of the New Urbanization Plan is open and forward-looking. The Chinese Government is relatively open about the difficulties of the present situation and of the need for change. In addition, sustainability and green credentials seem to be at the heart of the plan.

The reforms of the New Urbanization Plan are certainly ambitious – especially since the Government is aiming to meet these targets in less than six years. This will put a lot of pressure on regional administrations, which will bear the brunt of the workload.

Success really hinges on the willingness and ability of local governments to push through these changes, and to do so with the right motives at heart. For instance, it would be counterproductive if local leaders in the smaller cities were to respond to the New Urbanization Plan by repeating past errors, such as pursuing urban developments that are unfit for purpose and potentially unrequired.

The extensive hukou changes will also be dependent on local governments. The massive reallocation of people will require increases in public spending – on health care, education and housing – in certain jurisdictions. Local governments have a legitimate concern that they will be left to pay the bill.

The Chinese Government will have to work hard to engage local administrations in order to ensure the success of the New Urbanization Plan. Besides the risks of not achieving the desired growth and resolving current issues, there are many other risks for China – and the world – if the course of the country’s urbanization is not altered. If China’s urbanization continues to follow its current trajectory, it will lead to higher levels of wealth inequality, further lowering migrants’ living standards and spending power, as well as environmental risk for both China and the world.

¹²Adapted from the National New-Type Urbanization Plan.
Building a share in the Chinese construction sector

Chinese construction companies are the largest in the world and China has seen some of the biggest building projects ever undertaken.

China's construction industry is dominated by state-owned enterprises. Companies in the sector vary widely in terms of size, expertise, technology and experience with foreign businesses, among other factors. Western companies often help to introduce new technologies for the highest quality projects.

New opportunities for Western firms in China are arising from increasing labor costs, a growing middle class and mounting environmental concerns, as well as the market created by the New Urbanization Plan.

However, these new opportunities don't make the investment process easy. Businesses will face significant market entry and operational challenges if they team with Chinese partners or otherwise become involved in China's construction and real estate sectors.

Many of these challenges are common to all industries, but risks specific to construction and real estate include:

- Land ownership structures
- Prospective partners' financial and relationship resources
- Project establishment, initiation and organization
- Design and engineering management
- Contract process and structures
- Procurement processes
- Project scope, cost, schedule and risk management
- Labor and human resources
- Communications and reporting
- Materials, quality and safety management

To work successfully in the Chinese construction sector, Western firms should look for team members with local expertise, as well as international construction industry professionals, in order to guide investment and project decisions and help maximize returns.

Local knowledge will unlock China's media market

The Chinese people are enthusiastic consumers of all forms of media and entertainment (M&E). China has become one of the richest and most dynamic media markets in the world, with a growing and diverse menu of locally produced content, as well as movies and television shows from abroad.

China has the world's largest online population and the internet is challenging established state-run media outlets. While much of China's media is state controlled and subject to various limitations, China's M&E industry is clearly moving toward a model that is far more welcoming to private investment.

There are regional differences in M&E consumption. Technology adoption varies widely and cultural preferences and tastes differ throughout the country. Thus, China should not be considered a single M&E market, but rather as one country with many different markets.

As a result, M&E companies must study consumer behavior carefully to ascertain which segments are most attractive and to understand how to tailor their product and service offerings, pricing and distribution models, and brand strategies. Given the complexity and diversity of China's markets, it is advisable (and may be required) for foreign M&E companies to work with local partners.

For both Chinese and international M&E firms, adopting a carefully considered localization approach is the key to tapping the vast potential of the market.

Not all of the US$6.8t that the Chinese Government is investing as part of the New Urbanization Plan will be available to foreign businesses. Nevertheless, analysts at ZhangSmith estimate that global businesses will be able to bid for roughly US$100b in infrastructure development and services projects every year to 2020.13

The opportunities that will arise from Chinese infrastructure investment will last until 2020 and quite possibly beyond, given how ambitious the plan is. Moreover, the broader commercial benefits of the New Urbanization Plan will be felt long after 2020, as the plan will bring millions more Chinese into the consumer economy – people who have so far been invisible to Western companies. Not only will the plan increase migration to cities, where people tend to spend more money, the new hukou arrangements will also increase the spending power of migrants already in urban centers.

This new tranche of consumers will create a great deal of opportunity in the consumer sector. ZhangSmith estimates that consumer goods and services could be worth more than US$60b every year after the plan's end in 2020, and that for every year up to 2020, the value of additional consumer imports could be US$250b.14 Furthermore, the Chinese Government hopes to encourage consumer spending as part of its economic strategy. As urban consumers see their disposable incomes rise and the Chinese Government pushes to improve quality of life for its citizens, we also anticipate growth in sectors such as sports, tourism, and media and entertainment (see box 1, p.10).

Beyond consumers, the construction and infrastructure boom that will accompany the physical growth of cities should also see abundant opportunities in sectors such as urban planning, energy and information technology (see box 2, p.10). In line with the green intentions of the New Urbanization Plan, it is likely that companies with a strong record in green construction, environmental preservation, sustainability, green energy and other eco-sectors will have an advantage. Firms in the US and Europe that have experience working on modern, forward-looking urban projects will have an edge when they bid for projects.

There is also likely to be substantial opportunity in education and health care, as the migrant laborers with new urban hukou begin to spend as true urban citizens. Health care in particular will present many opportunities, as currently it is underdeveloped; however, companies will need to have a high tolerance for risk, as there will be a great deal of regulatory complexity in the industry (see box 3, p.14).

“Many multinationals think that the New Urbanization Plan will be an important growth engine for China’s future. I am optimistic about the major opportunities that it will bring to many of our clients.”

Jiang Hao, Partner, Ernst & Young (China) Advisory Limited, Performance Improvement

Urbanization will also open up major opportunities in the transport sector. A growing economy and urbanization to date have already pushed up demand for transportation in China. In 2012, passenger and freight transport were up 7.9% and 10.9% year-on-year respectively. The New Urbanization Plan aims to connect more cities to the high-speed railway and increase the use of public transportation. More broadly, the plan will also help to generate increasing demand for transportation as it facilitates the growth of smaller cities and helps to build a modern workforce that needs to travel for both work and leisure. Opportunities for foreign businesses operating in transportation will be broad and varied, ranging from helping to build new roads, railways and metro systems, to satisfying demand for high-tech traffic management systems and improving customer experience on the high-speed rail network (see box 4, p.14).

In all industries, sector-specific research is essential. Not all areas that firms might expect to grow with urbanization will present opportunities, because they are already experiencing overcapacity. For instance, there is overcapacity in the markets for some construction materials, such as steel and cement, so the expected construction boom will not necessarily lead to opportunity throughout the sector.

14China’s next phase of urbanisation, ZhangSmith, p.11.
4. Seizing the opportunity: how to win a share of US$6.8t

The New Urbanization Plan will bring a lot of opportunity for global businesses. But it is essential that companies considering working in China think about where and how they will operate in the country. Inadequate preparation will lead to poor investment decisions and could expose firms to risks. It's important to grasp that, although the central government’s actions will of course affect investors, on a day-to-day basis, firms will be working with China’s local governments while they negotiate investment opportunities. It’s also crucial to realize that there is a lot of regional variation in terms of opportunity, infrastructure and workforce.

Choosing an investment location

Choosing the right location is an important first step and companies should conduct extensive research and due diligence. They should also consult the detailed regional investment manuals issued by China’s local governments. It is likely that the New Urbanization Plan will mean local governments will also start to be more discriminating when selecting foreign partners for investment.

When choosing a location for investment in China, the following factors are particularly important.

**Workforce**

Labor costs were once the chief consideration for businesses looking to invest in China. Today, with incentives and other issues becoming more important, this is no longer true. Nevertheless, potential investors need to have some understanding of the Chinese labor market. The quality of China's workforce varies throughout the country. As a general rule, the more developed east has a more highly skilled — and more expensive — workforce than the rural west. Beyond this broad difference, there is also regional variation by sector. In some locations, certain sectors are well established, while others are not present at all. Although there might be some advantages to opening up a new sector in a particular region, businesses must also consider the availability of skilled labor and how this affects the local economy. For instance, in recent years, Shanghai's highly skilled workforce has increased rapidly and the contribution of service industries to the city's GDP has also grown substantially. By comparison, Zhengzhou has seen secondary industry expand swiftly, most likely due to a boom in entry-level labor.

**Regional sector focus**

Businesses must also analyze the maturity of sectors and industries in different regions, as there is a lot of variation within China. Companies entering Chinese markets should assess the maturity of their own sectors and any related industries in particular regions. Firms focused on selling to the Chinese market should also address consumer spending patterns, potential for market growth and levels of competition. Finally, local governments are likely to emphasize specific industries through incentives.

**Transportation**

China has some of the best transportation facilities in the world, and is investing in further improvements. However, access to transportation, including roads, railways and airports, is more variable outside the first-tier cities. As well as facilitating operations, areas with good transportation systems can also be more attractive to a high-quality workforce and drive up property values. The type of

“There is really no such thing as ‘investing in China’. Instead, businesses should think of themselves as investing in a particular region.”

C.Y. Wang, EY Americas China Business Network Leader
transportation option that best suits a particular sector should be considered when choosing where to invest. For instance, electronics businesses often prefer to set up operations in airport cities, while cities on the high-speed railway network often prove attractive to top-end service businesses.

**Industrial parks and economic zones**

Many foreign companies choose to establish operations in designated industrial parks or economic zones, which often have preferential incentives attached to them. Typically, these are found on the outskirts of cities. Businesses considering setting up in these locations should carefully assess the “move-in readiness” of the zones – access to transportation and utilities, and the possibility of future expansion, among other factors.

Foreign companies should also ensure that they establish a robust system to set up their operations in desired locations. Negotiating with local governments generally involves a lengthy approval process involving an assortment of investment bureaus and tax and customs authorities. Dealing with this bureaucracy can be a difficult task. But with good advice and a coordinated approach, it is definitely manageable.

China’s local governments are keen to provide guidance for foreign investors during the approvals process. Some cities have set up administrative “service halls”, which put all of the agencies dealing with overseas investors under one roof. Other cities impose time limits on decisions from the various bodies involved in the approvals process. Some prominent potential investors may also be allocated a dedicated commissioner to help the approvals process run smoothly.

**Incentives**

Increasingly, incentives packages are becoming the most important factor for businesses in deciding where to invest in China. Most local governments will have packages designed to attract foreign investment. Companies will have to negotiate for access to these packages, but incentives can include:

- Discounts on land-transfer fees
- Special funds for particular industries
- Subsidies on loan interest
- Rent rebates
- Discounts on utilities
- Local fiscal subsidies
- Signing bonuses and income tax reductions for executives

As well as financial motivations, many local authorities have also started offering incentives, such as training programs and intellectual property guarantees.

**Working with local governments**

A stated aim of the *New Urbanization Plan* is to bring foreign investment into China to help the Government achieve its ambitious designs. And with so much money on the table, the onus is certainly on Western firms to find and seize these opportunities. However, there will be competition for many of the contracts, and the Chinese local governments do have selection criteria.

Obviously, each case will be assessed on its individual merits. However, in general, when considering an investment proposal, awarding authorities will evaluate (among other factors) the total value, tax contribution and potential job creation. The weighting of these factors will vary regionally, depending on local priorities.

China’s local governments take the lion’s share of responsibility for the attraction and administration of overseas investment. Companies hoping to work successfully in China should foster good relationships with high-level local government officials. The key is to seek common goals and build trust.

Beyond interpersonal relationships, it is also important for businesses to have complete, written legal documents and contracts. Oral agreements with regional governments should be avoided, as these could be subject to risk if local leadership changes. This also helps to ensure that all dealings comply with Chinese law.

Multinationals hoping to establish operations in China also need to be aware of the regulations governing how foreign organizations can work in the country. Not all sectors and sub-sectors will allow foreign enterprises to operate as stand-alone entities. In some sectors, foreign firms can only invest via joint ventures. In addition, China has been increasing its anti-monopoly enforcement activities with the aim of fostering fair competition and reducing government intervention. This is expected to continue in the coming years.

On the whole, local governments are keen to work with foreign firms, and it is likely that this will only increase as the *New Urbanization Plan*, with its focus on attracting foreign investment, comes into force.
Urbanization adds to opportunity in health care

The New Urbanization Plan will increase the number of urban residents with access to state medical care. Moreover, accelerating urbanization and modernization will change the country’s health care environment. A growing middle class will spend more on health care. In addition, as China modernizes, there will be more sedentary jobs and higher disposable incomes. As a result, chronic conditions, such as diabetes and high blood pressure, will become more prevalent. The Chinese Government is also increasing its spending on health care.15

These factors will open many opportunities for multinationals in all sectors of Chinese health care. As in other sectors, major opportunities will emerge outside the major cities. For example, the Government has allocated US$17b for improving county and regional hospitals. Currently, there are around 23,000 hospitals and 70,000 community health centers in China. Western businesses only have access to a tiny percentage of this vast network.16

On the downside, regulation is extremely complex in Chinese health care. To tackle the market successfully, corporations should conduct thorough research and seek expert advice. Entry methods will also vary: some multinationals could form strategic alliances with other Western businesses; others will invest in local companies.

Currently, most foreign health care firms operate at the premium end of the Chinese market. However, there is a lot of growth potential in the mid-market, where local firms currently have a better footing.

Transport: a national priority

The New Urbanization Plan will increase the use of urban public transport and connect more cities to the high-speed rail network. Moreover, the plan will help to usher in a modern consumer economy that will also increase traffic on roads and railways.

This comes on top of existing plans for developing transportation. For instance, in 2012, as part of its 12th Five-Year Development Plan, the Government announced that it would be investing US$158b in infrastructure. As such, transportation offers a great deal of opportunity to multinationals. In fact, many foreign businesses are already operating in China’s transportation sector.

China’s transportation systems are diverse and extensive. By 2015, the country aims to have railways stretching for 120,000 kilometers (75,000 miles) and highways covering 4.5 million kilometers (2.8 million miles).17 Foreign firms will have the chance to work in various areas, including:

- The high-speed rail network
- Subway and metro systems
- Highways and expressways
- Urban roads
- Fleet management
- Car-parking management

There is a broad range of transportation challenges in China that will create opportunities for multinationals. The Government aims to:

- Integrate fragmented provincial road and railway systems
- Improve traffic management, alleviating road congestion and improving railway safety records
- Provide better public traffic information
- Monitor traffic levels more effectively and cohesively
- Decrease traffic pollution in cities
- Modernize the roads and public transportation systems in first-tier cities
- Develop state-of-the-art transportation networks in smaller cities

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17 Railway Development under the 12th Five-Year Plan, National Railway Administration of the People’s Republic of China, July 2011; and Transportation Development under the 12th Five-Year Plan, Ministry of Transportation, April 2011.
5. Next steps

The US$6.8t the Chinese Government is investing in urbanization will open new opportunities across the country and in almost every sector. The New Urbanization Plan invites Western companies to make an investment in China to help drive its next phase of urbanization. And the potential rewards are huge. A lot of Western businesses will be looking to invest – or expand their operations if they are already established in the country.

Companies that are serious about investing in China's urbanization must ask themselves the following questions:

- How will the targets set out in the New Urbanization Plan and explored in this document affect your company?
- The New Urbanization Plan will encourage strong growth in domestic consumption. Does your long-term strategy account for the ongoing expansion of consumer spending in China – up to and beyond 2020?
- Selecting where to invest is perhaps the most important consideration for any multinational. Have you looked beyond the megacities for growth? Which region has the most favorable workforce for your business?
- If you’re ready to make an investment, how will you make your case to local governments? Have you thought about local partners for joint ventures?
- What is the state of your sector in China? Where is your industry booming and where is there overcapacity? Have you investigated regional incentives?
- If your firm is already working in China, are you thinking about how you can adapt to the next phase of urbanization? Could you make savings by moving parts of your operation? Should you be looking to expand into new regions?

How EY can help you invest in China

Drawing on our extensive experience of helping Western businesses to work in China, we can help you to make the right decisions throughout the investment process.

EY can provide:

**Analysis of Chinese markets**
- Research on China's macroeconomic environment
- Tailored analysis of market characteristics
- Evaluation of your internal capability
- Specialized information about priorities in your market

**Advice on choosing an investment location**
- Information about possible locations
- Evaluation of investment sectors
- Guidance on targeting the right location

**Help selecting an appropriate sector**
- Advice and information on different sectors
- Assistance formulating a plan for settling in your sector

**Assistance with investment projects**
- Finding appropriate sector contacts
- Formulating the right investment strategy
- Planning an investment project
- Assisting with negotiations in the target sector
- Accelerating your project

“Urbanization is crucial to China - both for driving its economy and sustaining social stability. China’s mass urbanization may be the largest planned migration in world history. And if the country’s economy is to continue to grow at close to 7%, it will be empowered by urbanization.”

Dr. Robert Lawrence Kuhn, Senior Advisor to EY’s Office of the Chairman
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies worldwide. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About EY’s China Business Network

EY’s China Business Network (CBN) can help you gain an edge in “all things China.” Designed to help you develop, refine and implement your China inbound or outbound strategy, the CBN draws upon member firm professionals across functional areas worldwide to help you address your strategic requirements, seize business opportunities, manage local business risks and achieve your bilateral investment potential. EY has deep sector knowledge across a range of industries globally, including oil and gas, mining and metals, infrastructure and construction, cleantech, automotive, financial services, consumer products, technology, life sciences, and media and entertainment.

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