

THEME 03

The Blueprint of China's Future Economy

CHINA

ECONOMY

POLITICS

As China is moving up the global value chain, China's manufacturing sector is radically transforming from within. "Made in China 2025" is the long-term strategic blueprint underlying this transformation of the world's largest manufacturing economy. This document, when linked to other Chinese policy aims, provides insight into China's future and how the country perceives itself.

Our observations

- China is entering a crucial moment in its development trajectory, as it is nearing the [middle-income trap](#). To circumvent this, China must move up the value chain. The "[Made in China 2025](#)" (MiC2025) program, introduced in 2015, is the key document showing how China aims to do this. MiC2025 is China's main industrial policy program to transform and upgrade its manufacturing sector into a world-leading one: from Made in China to Created in China.
- One of the "Four Foundations" of MiC2025, the four guiding principles to transform China's manufacturing industry, is to substitute foreign for domestic technology. "By 2025, 70% of the essential spare parts and key materials [used in manufacturing] will have domestic sources", up from 30% in 2015. Eliminating 40% of this import bill would add up to more than \$1 trillion in cost reductions, given that China [imported](#) \$1.8 trillion worth of goods last year. This makes MiC2025 one of the largest investment policies in history.
- The nascent U.S.-Chinese trade war (which, technically, has already [begun](#)) is entering a new chapter, with U.S. tariffs and regulation increasingly focusing on banning U.S. technology exports to China, and preventing Chinese companies from either investing in strategic U.S. technology companies (e.g. blocking the [Xcerra](#) takeover) or acquiring U.S. technology by setting up businesses in the U.S. (e.g. barring [Huawei](#) and [ZTE](#) from entering the U.S.). We have previously written about China's outbound investments and aim to acquire [high technology](#) and [expertise](#) to upgrade its own manufacturing sector. MiC2025 seems to be the guiding framework for China's outbound FDI strategy.
- Since its [incorporation](#) in the Constitution of the Communist Party in March this year, the "Xi Jinping Thought" has become one of the official political and philosophical theories for Chinese socialism. Besides strengthening the role of China's Communist Party as well as leaving more room for market liberalization and private entrepreneurship, the Xi Jinping Thought can be considered China's long-term version of "Make China Great Again". First, it aims to double GDP per capita levels of 2010 by 2021, at the Communist Party's centennial anniversary. Second, China's modernization must be finalized by 2035 (e.g. urbanization must be completed, and the larger majority of Chinese households should attain middle-income status). By 2049, when the People's Republic of China turns 100, China should be "[a prosperous, democratic, culturally advanced and harmonious modern socialist country](#)", and rejuvenated as a global superpower (called the "[China Dream](#)").
- [Chinese culture](#) has a strong long-term orientation. Chinese leadership is generally appointed for two terms of five years and on the basis of meritocratic principles, as we have [written](#) before. As a result, Chinese politics is guided by long-term planning and strategic framework, examples of which are its precise and binding [five-year plans](#), the [Science & Technology Roadmap to 2050](#), the [China 2030](#) framework to make China a middle-income country, [Shanghai's 2035 urbanization plan](#), China's plan to [ban fossil fuels](#) by 2050, and China's \$1 trillion [Belt and Road Initiative](#) (BRI) to revive ancient trade routes.



Connecting the dots

MiC2025 is China's high-level industrial policy for upgrading its manufacturing sector. It wants to do this because "manufacturing is the main pillar of the national economy, the foundation of the country". This consists of three steps: 1) turning China into a major manufacturing power by 2025, by greatly increasing the digitization of China's manufacturing sector, reducing China's environmental footprint and mastering core technologies in specific areas (e.g. wireless communication, or robotics); 2) finalizing China's urbanization process, leading global innovation in specific domains in which China has acquired expertise by 2035, and "reaching an intermediate level among world manufacturing powers"; 3) becoming "the leader among the world's manufacturing powers" by 2049. This phased transformation of China's economy shows that the policy goals of MiC2025 are only intermediate steps towards a larger transition of China's economy and society. That becomes even clearer when we relate this plan to China's broader socio-economic policy.

The first pages of MiC2025 stress that it is founded upon the "[Four Comprehensives](#)" that guide Xi Jinping's main policy goal of establishing a prosperous society by the middle of this century. Furthermore, it follows the long-term strategic vision Xi Jinping has set out for China in the coming decades, as articulated in his Xi Jinping Thought. The digitization and finalization of China's industrialization aims to make China a middle-income country, while China's modernization process is finished when its manufacturing sector is on par with global benchmarks. And when China's manufacturing industry actually becomes the global benchmark, when advanced technology and innovation is actually created in China, this will cement China's position as global superpower and be the foundation of China as a harmonious and pros-

perous society.

However, the focus on the first phase of MiC2025 is digitizing China's manufacturing industry. The core framework for this is China's "[Internet Plus](#)". This framework, which was unveiled in China's Government Work Report in 2015 and integrated in China's 13th five-year plan (2016-2020), aims for a broad implementation of IT technology in China's manufacturing sector, as well as its finance, medical, government and agricultural industries, and to prepare China for the Fourth Industrial Revolution, as we have [written](#) before. Doing so must prevent China's economy from being stifled on both sides: not efficient and innovative enough to compete with advanced economies, while being too costly given its rising labor costs to compete with other developing countries (e.g. Vietnam or African countries). Interestingly, private companies are explicitly appointed to lead this process, and transform Chinese cities into "dream towns" in which all services and production are powered by digital technology. Although Internet Plus is much lesser-known than MiC2025, it is actually the guiding framework for the coming years up until 2025.

However, MiC2025 remains China's truly high-level and long-term strategic blueprint for its future. Recent developments in China - such as its [financial reforms](#), the establishment of its "[big data society](#)" or efforts to promote [green and sustainable economic models](#) - should be understood from the policy foundations as laid out in MiC2025. Having such a broad scope and being invested in so many policy goals, it can only be compared to China's BRI project. Understanding the BRI as China's outbound and foreign policy framework and MiC2025 as China's guiding program, these plans together can be considered the strategic blueprints of China's future.

Implications

- The transformation of China's manufacturing industry will imply a significant change for China's broader socio-economic development. It can be expected that China's most advanced technology hubs, such as the [Pearl River Delta](#), should be able to benefit from this transition. However, many of China's manufacturing companies still use technology from previous "industrial revolutions". Without significant investments in China's [human capital](#), we could expect increased divergence within China, putting pressure on the Communist Party's social contract.
- Like the BRI, China's MiC2025 has a lot of [momentum](#). However, contrary to the \$1 trillion BRI, MiC2025's momentum is driven by its speed, in particular the speed at which China is moving up the value chain. For example, China is assuming a leadership role, or at least competing seriously with the U.S., in [5G](#), [quantum computing](#), [AI](#), [renewable energy](#) and [electric vehicles](#). In other industries, such as the [semiconductor industry](#), China is still lagging behind. Given the strategic importance of MiC2025 and its aim to substitute foreign technology, there is probably a lot of political capital to compensate setbacks in China's technology development with additional resources. This will decrease the likelihood that the U.S.-Chinese trade war will be over after Trump leaves office.