

An aerial photograph of the Shanghai skyline at sunrise. The sun is low on the horizon, casting a warm orange glow over the scene. Several skyscrapers are visible, including the Oriental Pearl Tower on the left, the Shanghai Tower in the center, and the Shanghai World Financial Center on the right. The buildings are partially obscured by a thick layer of white clouds that fill the lower half of the frame. The sky transitions from a bright orange near the horizon to a pale blue at the top.

SPECIAL REPORT

CHINA'S 2020 TWO SESSIONS DECODED

WHAT'S NEXT FOR MULTATIONALS

JUNE 2020

APCO
worldwide®

FOREWORD

This year's "Two Sessions" showed that the Chinese leadership is feeling both embattled and emboldened.

Approximately 5,000 delegates gathered in Beijing for the annual meetings, just as economists estimated that the COVID-19 pandemic had eliminated as many as 100 million jobs in China and some 85% of Chinese private enterprises were struggling to survive. Everyone was also well aware of growing global condemnation over the pandemic, as the confirmed number of global coronavirus cases surpassed five million and the death toll reached 333,000.

Chinese President Xi Jinping and Premier Li Keqiang certainly felt the sting of global headlines, from demonstrations in Hong Kong reignited by the NPC's approval to impose national security legislation on the city, to the US announcement of a variety of initiatives which aimed to punish China for – as President Donald Trump described – "a pattern of misconduct" involving technology theft, failed commitments and human rights abuses.

But China is already getting back to business while the US and many others muddle through their own chaotic COVID response. As a result, the Chinese leadership mostly ignored foreign fulminations and presented initiatives to not only pull China's economy out of its COVID-coma, but also to revitalize the country's long-term ambition to replace the US as the world's most important consumer market and global technology leader.

Chinese leaders abandoned setting an annual GDP target, the economy's guiding light since 1990, instead emphasizing the creation of nine million new jobs as the country's primary objective. The NPC also approved plans to cut taxes and fees for SMEs, issue an additional \$525 billion in treasury and local government bonds, and launch a three-year plan for SOE reform. Many of these plans support Beijing's preparations for the next economic boom, to be unlocked through "new infrastructure" technologies as 5G, big data and AI.

China also reiterated that it will open more sectors and services to foreign investors through revised negative lists. But any fresh and far reaching market access openings for foreign companies were largely absent, as China focused instead on "stabilizing" the foreign trade and investment environment. Amid strengthening economic and geopolitical headwinds facing China, multinational corporations must pay even closer attention to Beijing's development objectives and the opportunities and risks they present for the foreign business community.

On behalf of APCO Worldwide's Greater China offices, this report presents the key themes from the 2020 Two Sessions, their impact on critical economic sectors and the opportunities and challenges facing multinationals. We hope this report helps you to build a solid foundation for future business operations in China.



James McGregor
Chairman, Greater China

A handwritten signature in black ink that reads "James M. McGregor". The signature is fluid and cursive, written over a dark, textured background.

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WHAT MULTINATIONALS NEED TO KNOW

- 1. Domestic Consumption Will Drive Economic Growth:** Facing a hostile external environment, China will accelerate its ambition to place domestic consumption at the center of economic growth. This will be driven by efforts to reduce the corporate debt burden, investments in new infrastructure, and measures to increase urban employment and reach ambitious poverty reduction goals.
- 2. China Will Pursue a “Stable” Foreign Trade and Investment Environment:** Foreign trade and investment were identified as two of six priorities to stabilize the Chinese economy. However, the meeting largely reiterated previous commitments, which reflects the need to reduce China’s overreliance on foreign export markets.
- 3. China Will Accelerate Investments in the Digital Economy:** The effective use of digital tools, including artificial intelligence, cloud and e-commerce, is a key component of China’s COVID-19 recovery efforts. The government will leverage economic stimulus to accelerate its existing goal to achieve global leadership in emerging technologies.
- 4. New Engagement Opportunities are Emerging:** China’s economic recovery will be built on ambitious goals to reduce the corporate burden, alleviate poverty and provide jobs to urban and rural residents. Opportunities are emerging for multinationals to contribute to this ambitious agenda and build key government and commercial relationships.
- 5. Hong Kong Faces Further Uncertainty:** The approval of a decision to introduce national security legislation in Hong Kong brings immense uncertainty to companies with operations and commercial partnerships in the territory. All eyes are now on Washington as it begins to remove Hong Kong’s economic and trade privileges.





OVERVIEW

After a two-and-a-half-month delay caused by the COVID-19 pandemic, China opened its 'Two Sessions,' the annual meeting of the National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC), on May 21.

It was an opportunity to demonstrate control over the pandemic and outline a blueprint for the country's future development. 2021 marks the first of two centennial milestones outlined in President Xi Jinping's "Chinese Dream" roadmap, when China is to achieve the goal of becoming a "moderately prosperous society." The countdown to 2021 is also a critical test for the government to achieve the goals of the 13th Five Year Plan.

2013:

Xi Jinping becomes president and outlines his "Chinese Dream", setting two key milestones known as the "centennial goals".

2021:

China has achieved a "moderately prosperous society" by the 100th anniversary of the CCP.

2049:

The PRC's 100th anniversary, China achieves the "great rejuvenation of the Chinese nation" as a fully developed economy.

The Chinese Dream: President Xi's Development Roadmap

While the definition of a "moderately prosperous society" is traditionally linked to the quantitative goal of doubling China's GDP from 2010 levels, it also encapsulates qualitative goals, including improving people's livelihoods. Having taken a considerable economic hit from trade tensions with the United States and the COVID-19 pandemic, this year's meeting demonstrated that the government will pivot towards qualitative goals, such as creating jobs, alleviating poverty and opening up less-developed regions, to showcase China's progress.

By improving livelihoods, the government's goal is to increase capacity for domestic consumption and reduce reliance on unstable foreign export markets. Opportunities exist for multinationals that can contribute to China's goals, especially those placed to accelerate the development of its digital economy. Looking ahead, multinationals should track the formation of China's 14th Five Year Plan, which will further solidify China's economic growth strategy and development priorities.

CNY 2.5 trillion

planned savings for enterprises in 2020

3.6%

deficit to GDP ratio

“

Maintaining security will deliver the stability needed to pursue progress, thus laying a solid foundation for accomplishing our goal of building a moderately prosperous society.

— Li Keqiang,

2020 Government Work Report

2020 GOVERNMENT WORK REPORT: Recovery Through Stability

Faced with strengthening global economic and political headwinds, the 2020 Government Work Report showed that domestic economic and social stability is the primary focus of China's post-pandemic recovery. This means the use of qualitative economic indicators, ambitious goals to improve people's livelihoods, the adoption of flexible fiscal and monetary policy tools, and efforts to stabilize foreign trade. These actions will be reinforced by an array of stimulus measures to support infrastructure development and empower small and medium-sized enterprises (SMEs).

Qualitative Development: China's New Economic Path

Following an unprecedented 6.8% drop in economic growth in Q1, the report broke with tradition by not announcing a specific GDP target for 2020. While China will continue to pursue economic growth, the government will measure and project its success through a qualitative model built on ensuring stability across six fronts and maintaining security in six areas (see infographic). The decision to drop a concrete target reflects the severe impact of the COVID-19 pandemic on the domestic economy, but aligns with previous government priorities to emphasize 'high-quality' over 'high-quantity' growth as China's GDP declines.

Development through the "six stabilities" and "six securities" was shown in the report through commitments to create nine million new urban jobs, keep the surveyed urban unemployment rate at around 6%, introduce 35 million new vocational skills training opportunities into 2021, and to eliminate rural poverty this year. By simultaneously improving livelihoods and spurring domestic consumption, the government also seeks to create new sources of performance legitimacy as China reaches the first centennial milestone of becoming a "moderately prosperous society in all aspects."

Stimulus Through New Infrastructure and Empowering SMEs

The shift to a qualitative growth model does not mean that China will neglect the pursuit of quantitative growth, which will mainly come through stimulus. The work report pledged to free up CNY 1 trillion in capital by increasing its deficit-to-GDP ratio to a new high of 3.6%, as well as issue a further CNY 1 trillion in special treasury bonds and 3.75 trillion in special local government bonds. Stimulus efforts will prioritize the development of "new infrastructure" such as 5G and new energy vehicles, and urban infrastructure.

With the goal of saving more than CNY 2.5 trillion for domestic enterprises throughout 2020, the report also announced further tax and fee reduction measures, and expanded financial support through increased lending and loan repayment extensions. SMEs will continue to be exempt from insurance contributions and corporate income for the rest of the year. Large commercial banks were also called to increase their lending to SMEs by more than 40 percent.

With infrastructure development and empowering SMEs at the forefront of national recovery efforts, opportunities exist for multinationals to align with these goals and develop new government and commercial relationships.

Stabilizing Foreign Trade and Investment

Facing growing global calls for economic decoupling, the Work Report cites stabilizing foreign trade and investment as important components of China's economic recovery. This was done by repeating previous commitments to shorten the negative list for foreign investment, support reform efforts at the World Trade Organization, sign the Regional Comprehensive Economic Partnership (RCEP), as well as give greater autonomy to Free Trade Zones. The report also makes brief reference to China's intentions to work with the US to implement the phase one trade agreement and reiterated the commitment to the equal treatment of foreign and Chinese companies through the Foreign Investment Law.

The foreign business community should note that these pledges are largely a reaffirmation of previous commitments, expressing the government position to "stabilize" as opposed to "enhance" the foreign trade and investment environment.



EMPLOYMENT



FINANCE



FOREIGN
TRADE



FOREIGN
INVESTMENT



DOMESTIC
INVESTMENT



MARKET
EXPECTATIONS

Stabilize (六稳)

CHINA'S QUALITATIVE GROWTH MODEL

Secure (六保)



JOB SECURITY



BASIC LIVING
NEEDS



MARKET
OPERATIONS



FOOD AND
ENERGY



SUPPLY
CHAINS



LOCAL
GOVERNMENT

ECONOMIC STIMULUS: Advancing China's Digital Transformation

Since the onset of the COVID-19 pandemic, central and local governments have implemented measures to quell the economic fallout of a nationwide shutdown. Many of these have taken the form of interest subsidies, tax exemptions and loosened requirements for credits and loans, with the majority targeting SMEs and hard-hit sectors, such as retail, hospitality, and tourism. The People's Bank of China also played an important role by reducing benchmark lending rates and injecting capital to encourage lending.

While economic stability continues to be a key priority for Beijing, signals as to what China's long-term economic recovery would look like has also emerged over the past two months.

New Infrastructure: A Strategic Pillar for Recovery

President Xi Jinping first outlined the importance of "new infrastructure" in March, after which the National Development and Reform Commission clarified its definition and focus into three areas: 1) the application of cutting-edge technologies, including 5G, big data and artificial intelligence; 2) the integration of traditional infrastructure sectors such as transportation with advanced technology; and 3) increased investments in innovative capabilities and advanced public welfare.

With China's central government having already earmarked CNY 600 billion to facilitate new infrastructure investments, the Two Sessions was the point in which additional financial resources were put towards these projects. After the success of digital tools in COVID relief efforts such as contact tracing and information sharing, the work report described commitments to new infrastructure as "effective investments," driven by CNY 3.75 trillion in special purpose local government bonds.

Lessons from 2008: Streamline and Target Spending

The memory of China's 2008 stimulus to counter the global financial crisis hangs heavily over Beijing's post-COVID strategy. While the economic impact of COVID-19 is in many ways more significant than 2008, China's massive CNY 4 trillion stimulus package – equivalent to approximately 13 percent of GDP at the time – produced several economic consequences, from increasing local debt to encouraging overcapacity.

Compared to the 2008 stimulus, which was mostly put towards government-led construction projects, the 2020 plan is more targeted to reinforce existing national development objectives. The goal is to hasten

17%

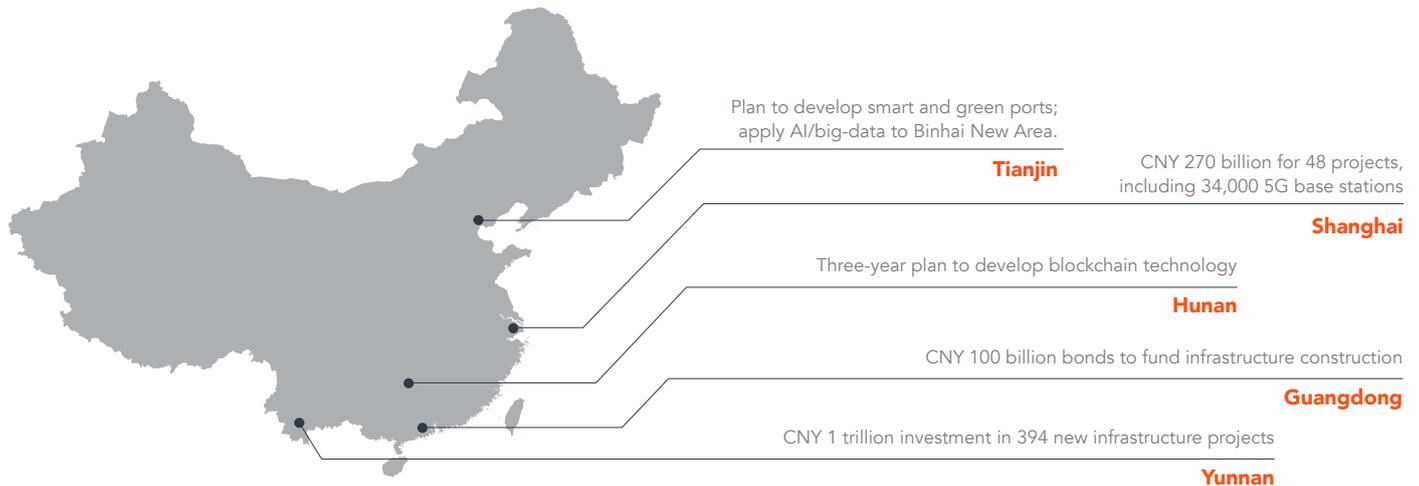
of the stimulus prior to the Two Sessions was dedicated to SMEs, retail and tourism

CNY 3.75 trillion

special-purpose local government bonds

CNY 600 billion

stimulus to support new infrastructure at the central-level



the country's economic recovery in the short-term, while supporting efforts to increase China's position in global value chains in the long-term.

Implications for Multinationals

New infrastructure creates opportunities for multinationals, especially those with experience and expertise in advanced technologies. Companies which tailor their strategy to local needs whilst acknowledging the realities of China's macro-political ambitions stand to benefit. Below are some key considerations:

1. Competition: None of the concepts within China's stimulus package are novel ideas. Rather, they are intrinsically tied to national-level development plans such as Made in China 2025 and the overall goal of raising the capacity of domestic technology champions. While foreign business may experience some short-term gains from China's stimulus plans, China's overall goal to reduce the reliance on foreign technology remains.

2. Local Implementation: To achieve the scale required to power the national economic recovery, Beijing expects local and provincial authorities to do the heavy lifting on implementing and attracting other revenue channels to finance new infrastructure. Local governments have swiftly responded to Xi's call, with at least 20 provinces introducing infrastructure plans before the Two Sessions.

3. Emerging Partnership Opportunities: Opportunities exist for multinationals with technical expertise to contribute to this agenda. Under pressure to achieve ambitious growth targets set by Beijing, local level authorities will be especially open to collaborations, ranging from poverty alleviation efforts and efforts to support the digital transformation of SMEs, to initiatives to help train the next generation of urban workers.

CHINA'S FOREIGN POLICY: Message from the Sessions

Despite the meeting's emphasis on developing China's domestic economy, the government signaled its continued openness to multilateral cooperation. This includes calls for mutual respect with the US and maintaining a "positive cycle" in relations with the EU. However, as China's influence continues to grow, so does its staunch commitment to defend its red lines for engagement. The perceived role of "foreign forces" in China's internal affairs is seen as the basis for its deteriorating relations with the West.

Multilateralism Remains a Key Principle in China's Foreign Relations

President Xi Jinping stated that China's economy faces major external challenges amid growing geopolitical risks and the rise of protectionism. Xi repeated the mantra that China must "stand on the right side of history" by pushing for economic globalization. Foreign Minister Wang Yi also cited the COVID-19 pandemic as an example of global challenges that can only be resolved through multilateral engagement, with any other courses described as "futile."

US-China Relations: Calls for Cooperation While Emphasizing Red Lines

While Foreign Minister Wang Yi repeated that China's approach towards the US will be driven by cooperation and mutual respect, his speech also included a caveat that China will continue to defend its sovereignty, territorial integrity, and right to development. Wang also warned that "certain political forces in the US" are attempting to push bilateral





relations to the brink of a “new Cold War,” a direct reference to US officials and lawmakers accelerating numerous bills and regulations across multiple areas of the bilateral relationship, including human rights and supply chain decoupling.

The US also loomed large in Wang’s comments over ongoing bilateral tensions over COVID-19, likening the spread of lies and conspiracy theories about China to the spread of a “political virus.” Wang also called on those “with insight” to counter the malign intentions of China hawks, a subtle reference to less hawkish voices in US industry and political circles.

Hong Kong National Security Law: All Eyes on Washington

The perceived influence of “foreign forces” in China’s internal affairs is the fundamental basis for introducing national security legislation in Hong Kong, which was almost unanimously passed at the NPC. The law, which would also give mainland authorities the jurisdiction to open national security offices in Hong Kong, will now be drafted by the NPC Standing Committee in an accelerated process of approximately two months. The US swiftly condemned the move, resulting in the declaration that Hong Kong no longer holds a ‘high degree of autonomy’ from mainland China and President Trump’s announcement to begin removing aspects of Hong Kong’s special status.

The introduction of controversial national security legislation is likely to result in further tensions within Hong Kong as well as between China and the US ahead of the city’s legislative elections in September. All the while, Hong Kong’s status as Asia’s premier financial hub will be heavily impacted by any recalibration of its relationship with the US, creating immense uncertainty to multinationals who leverage the territory as a hub for their Asia Pacific operations.

IMPLICATIONS
FOR YOUR
SECTOR



EDUCATION



FINANCIAL SERVICES



FOOD & RETAIL



HEALTH CARE



ICT



MANUFACTURING



TOURISM/HOSPITALITY

EDUCATION

The education sector sits at the forefront of China's economic recovery ambitions. As a result, the Government Work Report focuses on improving the quality and accessibility of education nationwide.

The meeting reaffirmed several goals outlined in previous policies. In 2019, the number of students in compulsory education receiving a living allowance increased by almost 40% and enrolments at vocational colleges grew by 1 million. **The target for 2020 is to provide vocational training for over 35 million people and to expand higher vocational college enrolment by 2 million to cope with unemployment pressures caused by COVID-19.** The development of education serving rural and poor areas was also emphasized, focusing on expanding the enrolment of students from impoverished areas at colleges and universities. The report also reiterates commitments to increase employment opportunities for China's 8.74 million new college graduates, with a focus on market-based employment and providing local opportunities for local graduates.

One key trend to emerge from the COVID-19 pandemic has been the mass adoption of home schooling across the globe, making online education and virtual learning a norm. As education moves online, multinationals in China should focus their attention on how "new infrastructure" investments could impact the sector. NPC members and key industry leaders such as Yang Yuanqing, CEO of Lenovo, and Yu Minhong, CEO of New Oriental Education, have already cited that "new infrastructure" could transform China's education sector through the integration of AI and the creation of digital educational sharing platforms. **Foreign education service providers should consider how to adopt their business models to the accelerated pace of digital transformation in China's education sector.**





FINANCIAL SERVICES

The opening of China's financial industry proceeded at pace in 2019, with the elimination of foreign ownership caps on securities, brokerage and insurance companies. It is hoped that widened access for foreign firms can encourage domestic players to adopt best practices imported from mature markets, and discourage risky behaviors which undermine overall market stability. However, the COVID-19 pandemic has challenged these objectives, as the need for economic stimulus risks exacerbating the problems that financial reform intends to resolve, such as local government debt and underperforming loans. The focus of the Two Sessions was therefore to ensure that China's financial system can allocate government investment to areas of the economy where it is crucially needed without worsening pre-existing issues.

The Work Report included pledges to **maintain a more 'flexible' monetary policy and to expand lending by large-scale commercial banks to SMEs by at least 40%**. People's Bank of China Governor Yi Gang further pledged five measures to support credit provision for the real economy, including support for corporate bond sales and the development of supply-chain finance. However, broader industry reform continues apace. The **Financial Stability and Development Committee announced an 11-point program pledging to further open the credit ratings sector to foreign participation**, while the Banking and Insurance Regulatory Commission re-emphasized its intention to drive forward opening for foreign business.

Financial services will grow in importance as the government accelerates China's transition towards a domestic, consumption-driven economy. The diversification of financial products and services are therefore expected to form the foundation for expanded consumer spending. However, the ease in which state backed players can mobilize resources to expand into new areas means that foreign players must have a deep understanding of China's market and regulatory nuances to secure a foothold.

FOOD & RETAIL

To accelerate the push for 'high-quality' consumption as the basis for economic development, the government announced several ambitious plans, including the renovation of pedestrian shopping streets and the expansion of rural e-commerce. **As China enters its post-COVID recovery, the food & retail sector will experience heightened consumer sensitivity on both product quality and food safety.** This will intensify government supervision over e-commerce and social platforms to combat counterfeit products.

Another significant trend will be the development of digital commerce and 'new retail,' defined by online-offline integration, mobile payment apps and livestream e-commerce. The growth of new commerce channels complements overall efforts to encourage domestic spending, made evident by several partnerships between local governments and online payment platforms to distribute digital cash coupons to increase spending.

As online retail matures, more market players will expand into China's second and third-tier cities, as well as rural regions that show enormous potential. The fast growth of cross-border e-commerce will also cater to the diversified needs of increasingly sophisticated Chinese consumers. At the same time, the adoption of greener practices across the supply chain will continue to grow, as China seeks to implement new plastic packaging policies to limit the environmental impact of e-commerce and delivery services platforms.

While the rapid pace of China's retail environment has created challenges for foreign players struggling to expand their omnichannel presence, **businesses that can not only demonstrate their innovation and speed, but also navigate the complex regulatory environment that exists between cross-border e-commerce and regular trade channels, will be best placed to benefit.** The slow but necessary transition towards more sustainable retail practices will also present opportunities for multinationals to show their value as responsible enterprises.





HEALTH CARE

In response to the healthcare crisis caused by the COVID-19 pandemic, reforming China's public health system was unsurprisingly the top issue at the Two Sessions. Calls to address the failures of the disease monitoring and response system were echoed by the leadership of China's Center for Disease Control (CDC), who advocated for empowering the CDC system to manage and release public health information. **The NPC is set to overhaul China's public health legislation in the next one to two years, with the aim of increasing investment in treatment and testing capabilities and ensuring the supply of critical resources in times of emergency.** The pandemic has also increased attention on China's Biosecurity Law, which includes provisions to enhance the prevention and control of major emerging infectious diseases and improve laboratory biosecurity.

While absent from this year's Work Report, reducing the price of medical products continues to be a major government priority. Volume-based procurement (VoBP) of pharmaceutical and medical consumables made significant advances in 2019, and is expected to expand in 2020. VoBP of pharmaceuticals is expected to move beyond the existing scope of drugs, while a growing number of provinces are exploring different methods to apply VoBP to medical consumables. Multinationals will need to prepare their product and pricing strategy as VoBP becomes the mainstream procurement tool within China.

The COVID-19 crisis also marked the mass adoption of digital healthcare solutions, from contact tracing apps to online medical consultations, creating long-term opportunities for market players.

The development of "Internet Plus Healthcare" continued to be highlighted in not only the Government Work Report, but also in proposals submitted by representatives from the ICT sector. Finally, the pandemic has incentivized the government to explore insurance reimbursement for online services and provide patient triage through online appointments.



Although China recognizes the need to showcase a level playing field for technology multinationals that contribute to its development, continued U.S. sanctions against national tech champions such as Huawei have accelerated efforts to secure supply chains and drive indigenous innovation.

In the aftermath of the COVID-19 pandemic, China's immediate focus will be on economic stability, which may create new opportunities for multinationals. **While domestic vendors are likely to be the biggest commercial winners of China's "new infrastructure" spending, China will remain eager to learn from MNCs' know-how and best practices in digitalization.** With China's priorities to stabilize employment, improve livelihoods and secure market operations, foreign technologies which can help empower Chinese SMEs, or the manufacturing and health sectors will be viewed especially favorably.

Despite these emerging opportunities, China's push to develop an indigenous technology sector means multinationals should expect a diversified policy toolbox to support domestic competitors. This will include Chinese technology firms having easier access to funding from capital markets by listing on the Shanghai Sci-Tech Innovation Board (STAR Market), increased Chinese private sector activity in state-led research programs, and greater state-led capital and funds at the local level to invest in the domestic ICT sector.

This year's Two Sessions also saw the NPC commit to the accelerated formulation of the Personal Information Protection Law and the Data Security Law from their previous trajectory of 2023. **Multinationals should pay special attention to the progress of the Data Security Law, as the legislation is likely to build further on China's interest to ensure national security and may affect China's regulation of cross-border data transfers.**





MANUFACTURING

Lingering U.S.-China trade tensions coupled with setbacks from COVID-19 have left China's manufacturing sector struggling to keep up with previous growth and productivity. Despite stronger April output figures, which rose 3.9% year on year from a 1.1% drop in March, a deep-rooted imbalance between supply and demand was shown in May through a fifth consecutive month of contraction in export orders. To combat this, the government outlined measures to stabilize both industrial supply chains and employment.

Determined not to repeat the same mistakes of 2008, the government will look to control budget deficits by focusing stimulus funds on high growth areas, such as "new infrastructure" and "new urbanization." Areas subject to new infrastructure spending includes the construction of new-energy vehicles, intercity high-speed railways, industrial IoT, and ultrahigh-voltage (UHV) electricity transmission. "New urbanization," partly supported by the RMB 3.75 trillion in local bonds, includes measures to boost employment figures and skills training.

Foreign manufacturers should assess how long-term trends will impact their Chinese operations, especially increased competition from local champions in technology and innovation-intensive sectors. As the Chinese government looks to stabilize its foreign investment pipeline, multinationals may leverage opportunities such as the further trimming down of the negative list for foreign investment, and increased support for investments in less-developed regions. However, the continued global economic fallout, and global calls to reduce reliance on foreign components, has renewed China's focus on mitigating vulnerabilities in global value chains. This presents risks to both the domestic and foreign sales channels of multinationals operating in-market.

Multinationals should prepare for the drafting and release of the 14th Five-Year Plan likely to be released in early 2021, which are likely to continue the manufacturing ambitions outlined in Made in China 2025.

TOURISM/HOSPITALITY

The tourism and hospitality sectors were among the hardest hit by the COVID-19 pandemic. Prior to the Two Sessions, local authorities had already issued measures to help businesses alleviate the immediate financial impact and resume normal operations, such as loosened credit requirements and tax exemptions.

The Work Report unveiled both short-term recovery measures and long-term plans to accelerate online and offline integration, in line with China's goal to transition to a consumption-driven economy. For example, the central government will extend VAT exemptions for tourism and culture-related services until the end of 2020, while tax bureaus and banks are encouraged to reduce taxes and extend deadlines for loan repayments. The NPC will also focus on upgrading services and infrastructure to alleviate poverty and improve China's reputation with inbound tourists.

President Xi Jinping also emphasized the need for innovation in tourism in relation to other key development goals, combining tourism with the development of rural revitalization, sustainable consumption and promoting a healthy active lifestyle. In many areas, the upcoming Beijing Winter Olympic Games in 2022 serves as a target deadline to promote public health and societal wellbeing.

The night economy has also been tapped as a key growth segment by extending consumption hours for tourism service providers, such as restaurants, shops and museums.

While COVID-19 has placed significant strain on the tourism and hospitality sectors, existing inbound travel restrictions and evolving geopolitical tensions are likely to deliver a more prolonged impact. However, **multinational companies in tourism and hospitality may also find greater opportunities for government engagement at the central and local levels, as China looks to revive growth and consumption, as well as build overall consumer confidence.**



APCO CHINA

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