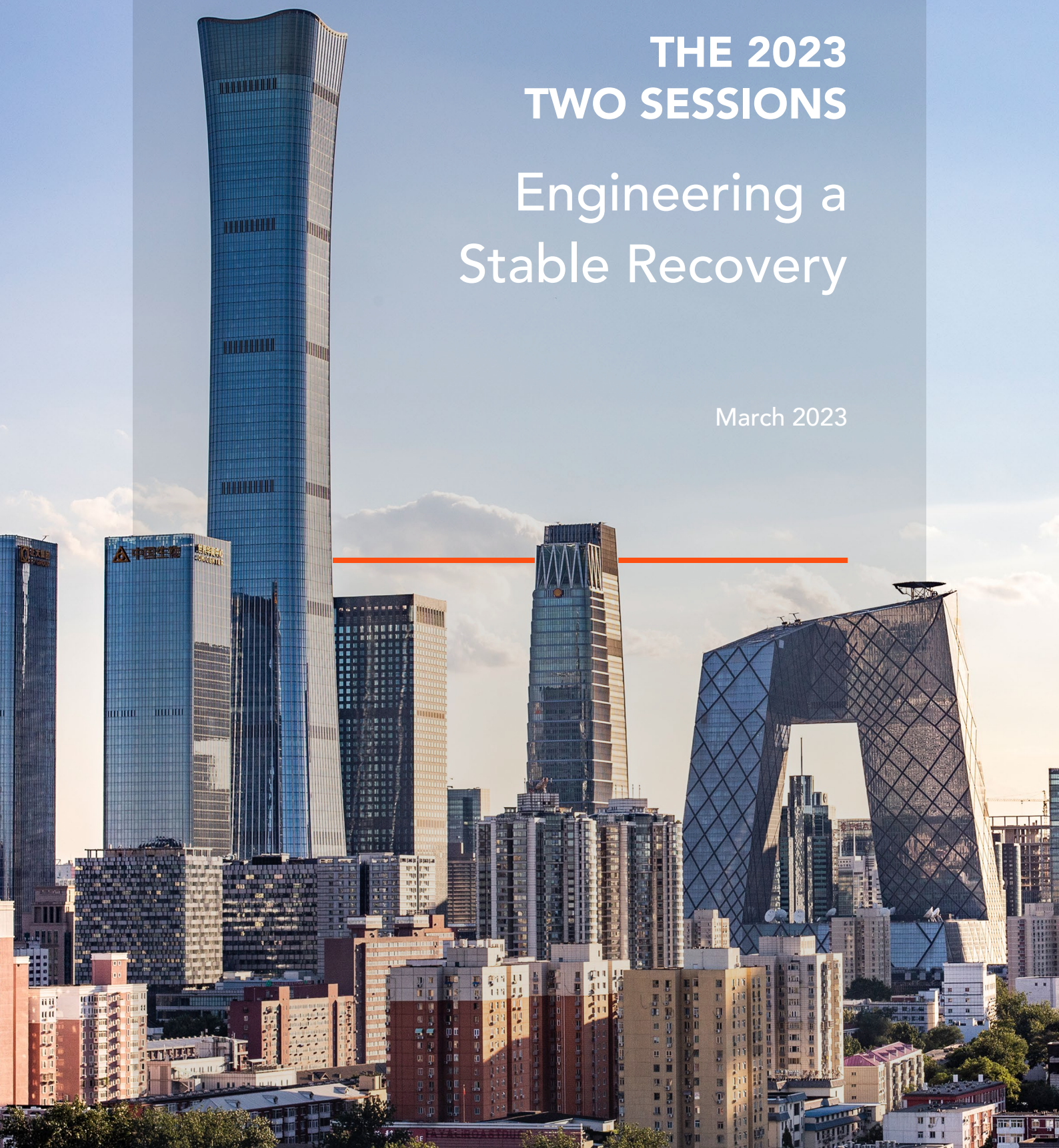

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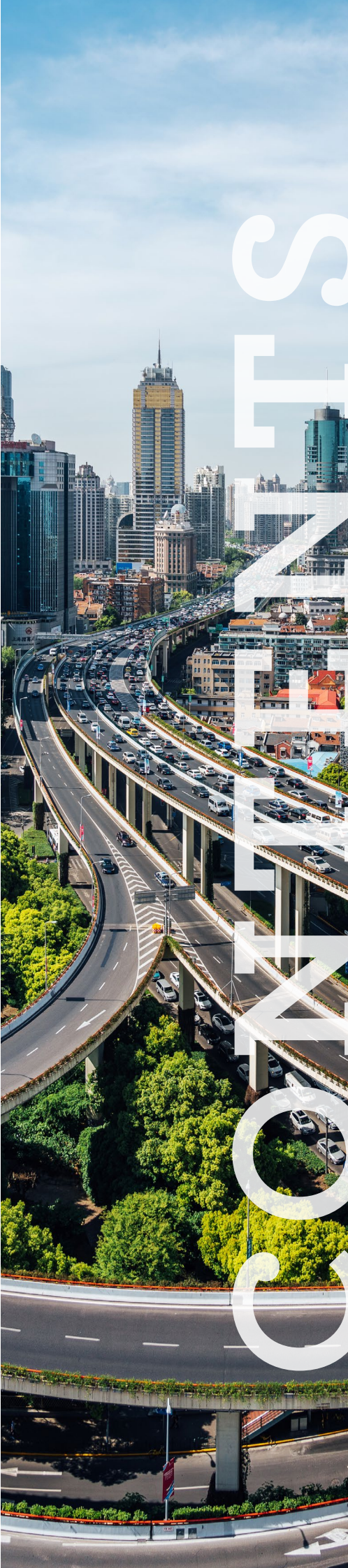
SPECIAL REPORT

THE 2023 TWO SESSIONS

Engineering a Stable Recovery

March 2023





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ABOUT APCO GREATER CHINA

FOREWORD



James McGregor
Chairman, Greater China

Chinese President Xi Jinping is now at the peak of his power. Over the past decade, he has focused on strengthening the Party's hand in governing, while establishing the economic and technology goals and governance structures to withstand what he sees as long-term hostility and "external containment and suppression" from the West. Now that Xi has formally received his unprecedented third five-year term as president at this year's National People's Congress (NPC), and fully positioned hand-picked loyalists atop important government and Party institutions, he will come under pressure to deliver.

The difficulties before him are copious and complicated. China's economy has only just begun to recover from its worst performance in 30 years. Crackdowns on business tycoons have left Chinese entrepreneurs weary and wary, many of them sitting on the sidelines waiting to see if recent pledges to re-embrace the market will create significant and safer business opportunities. Multinationals in China, which remain focused on promises of equal treatment, face increased scrutiny of their China business operations from political leaders at home.

The perception of foreign business in China, and Chinese business overseas, serving as an important bridge between China and the world is shifting dramatically. Business is increasingly viewed as an economic battleground as governments shift their economies from globalization to weaponization. Governments and businesses are still assessing the future of foreign business in China, as well as that of Chinese businesses and their "going out" strategies.

The plans and policies unveiled at the NPC reflect cautious optimism on the economy. The GDP goal of 5% growth for 2023 is likely to be surpassed barring unforeseen economic shocks. The promise of 12 million new urban jobs is doable. The institutional reforms and restructuring are aimed at boosting growth, controlling financial risks and building self-reliance in advanced science and technology, while giving the Party an ever-stronger grip on the government bureaucracy.

Since 2020, Xi has hardened the economy through his "dual circulation" model to reduce China's dependence on the world, while simultaneously making the world more dependent on China. This is especially crucial in critical segments of the Chinese economy, from advanced manufacturing, to supply chains, to the industries of the future such as electric vehicles, AI, biotechnology and

quantum computing. The new government and Party reforms further tighten the link between Party directives and policy execution. This can be seen as putting the finishing touches on the assertion of Party power begun a decade ago when Xi unveiled a portfolio of Party "leading groups" that supplanted the decision-making of various bureaucracies.

The government's new leadership team will be closely watched. Much of the analysis so far has focused on the loyalty of the leaders who are also Party Standing Committee members. Li Qiang, the new premier, was Xi's chief of staff in Zhejiang. Cai Qi, who now oversees Party operations, was chief of staff in Fujian. Ding Xuexiang, the new executive vice premier, is Xi's most recent chief of staff. Wang Huning, Xi's ideological guru, is the new chairman of the Chinese People's Political Consultative Conference (CPPCC). Zhao Leji, once Xi's trusted anti-corruption chief, is now chair of the National People's Congress.

What has been less discussed is that this group has formidable leadership experience within the cities, provinces and the Party apparatus — but not the central government. Premier Li lacks experience working in the State Council and the central government ministries he now commands. New Vice Premier He Lifeng, who takes over from Liu He as China's economic czar, spent several decades in local leadership before coming to Beijing to lead China's central planning agency. As this group takes the reins of China's most powerful central institutions, we may see another possible strand of Xi's strategy evolve.

As with mayors and governors around the world, China's local leaders face very real day-to-day problems that predispose them toward operating in a practical, get-things-done manner. This differs widely from officials in Beijing, who have more leeway to be overly formalistic and imperious. As we watch the Party take tighter control, we may also see those leading China's highest institutions employ their experience as mayors, governors and local Party secretaries to streamline and tighten up how things get done in Beijing.

Maybe the Party has been re-examining Mao's revolution-era tactic of "surrounding the cities from the countryside."

KEY TAKEAWAYS



GOVERNMENT OVERHAUL AND INSTITUTIONAL REFORM

What Are the Two Sessions?

The Two Sessions — or *Lianghui* — are the annual conferences of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), the country's main political advisory institution, and the National People's Congress (NPC), its top legislative body. Every year, approximately 2,100 CPPCC members and 2,900 NPC members gather in Beijing to hear and discuss the State Council's Government Work Report, which outlines major economic growth targets and guiding policies on socioeconomic development and foreign affairs. Members of the NPC also vote on key legislation and reforms. The annual Two Sessions usually conclude with a press conference by China's premier.

The first meetings since the 20th National Congress of the Communist Party of China (CPC), this year's Two Sessions solidify the Party's quinquennial power transition. President Xi Jinping has secured an unprecedented third term as president and former Executive Vice Premier Han Zheng was appointed vice president. Current Politburo Standing Committee member Zhao Leji and Wang Huning became chairman of the Standing Committee of the NPC and chairman of the CPPCC, respectively.

Aside from Li Qiang, a current member of the Party's Politburo Standing Committee who succeeded Li Keqiang as premier, the appointments of other top officials are also relevant for the international business community. He Lifeng, a current Politburo member, has been named vice premier in charge of financial and economic affairs, succeeding Liu He. Zheng Shanjie, a former provincial leader in Fujian, Zhejiang and Anhui, has been appointed chairman of the National Development and Reform Commission (NDRC), the country's top economic planning agency. Incumbent Governor of the People's Bank of China Yi Gang, Minister of Finance Liu Kun and Minister of Commerce Wang Wentao all retained their positions.

Chinese authorities usually facilitate institutional reform of the government at the start of each new cabinet's term to improve governance of critical and emerging issues confronting China's development. Such reforms generally lead to the consolidation or establishment of industrial

regulatory authorities. For example, the Ministry of Industry and Information Technology, the Ministry of Human Resources and Social Security, the Ministry of Transport and the Ministry of Environmental Protection were established in 2008. In 2018, the revamp plan included the establishment or reformation of several ministries including the Ministry of Natural Resources, the Ministry of Ecology and Environment, the Ministry of Agriculture and Rural Affairs, the Ministry of Culture and Tourism and the State Administration for Market Regulation.

This year's institutional overhaul focuses predominantly on finance and technology in an effort to improve governance of financial stability, technological self-reliance and data security, all of which have been highlighted as development priorities amid China's rapid economic transformation and escalating competition with the West. Highlights of the institutional reform plan include:

- The **Ministry of Science and Technology** will be restructured in a way that prioritizes strategic planning to advance China's "whole nation" system in promoting scientific and technological innovation.
- The **National Financial Regulatory Administration (NFRA)** will be established to replace the China Banking and Insurance Regulatory Commission. The NFRA will oversee financial holding companies and investor protection, two areas previously administrated

by the People's Bank of China and the China Securities Regulatory Commission (CSRC). The CSRC will be elevated to the status of an agency directly overseen by the State Council, with approval authority over the issuance of enterprise bonds, including those raised by local government financing vehicles (LGFV).

- A **national data bureau**, overseen by the NDRC, will also be established. The bureau will oversee the promotion of the digital economy and strategic planning

around China's data assets, as well as improve inter-ministerial coordination on data issues. However, the Cyberspace Administration of China (CAC) will still be responsible for cybersecurity, data security and privacy protection. The new data bureau will inherit certain responsibilities from both the NDRC and the CAC, such as developing the digital economy, coordinating China's digital infrastructure, devising strategies for smart cities and planning China's digital infrastructure.

Presidency		Standing Committee of the National People's Congress		Chinese People's Political Consultative Conference	
President	Vice President	Chairman	Chairman		
 Xi Jinping	 Han Zheng	 Zhao Leji	 Wang Huning		
State Council					
Premier	Executive Vice Premier	Vice Premiers			
 Li Qiang	 Ding Xuexiang <i>Reform and Development, Environment</i>	 He Lifeng <i>Economic and Financial Affairs</i>	 Zhang Guoqing <i>Public Health, Education, Culture</i>	 Liu Guozhong <i>Agriculture, Commerce</i>	
*Text in italics represents the portfolio of the vice premier					
State Councilors					
 Li Shangfu Minister of National Defense	 Wang Xiaohong Minister of Public Security	 Wu Zhenglong Secretary-General of the State Council	 Shen Yiqin	 Qin Gang Minister of Foreign Affairs	
Ministers					
Chairman of the National Development and Reform Commission Zheng Shanjie	Minister of Education Huai Jinpeng	Minister of Science and Technology Wang Zhigang			
Minister of Industry and Information Technology Jin Zhuanglong	Head of the National Ethnic Affairs Commission Pan Yue	Minister of State Security Chen Yixin			
Minister of Civil Affairs Tang Dengjie	Minister of Justice He Rong	Minister of Finance Liu Kun			
Minister of Human Resources and Social Security Wang Xiaoping	Minister of Natural Resources Wang Guanghua	Minister of Ecology and Environment Huang Runqiu			
Minister of Housing and Urban-Rural Development Ni Hong	Minister of Transport Li Xiaopeng	Minister of Water Resources Li Guoying			
Minister of Agriculture and Rural Affairs Tang Renjian	Minister of Commerce Wang Wentao	Minister of Culture and Tourism Hu Heping			
Head of the National Health Commission Ma Xiaowei	Minister of Veterans Affairs Pei Jinjia	Minister of Emergency Management Wang Xiangxi			
Governor of the People's Bank of China Yi Gang	Auditor-General of the National Audit Office Hou Kai				

WHAT MULTINATIONALS NEED TO KNOW

1

Economic Stability Remains the Top Priority for 2023. Global and domestic economic challenges, including inflation and faltering demand, mean China will prioritize measures to spur economic growth in the coming year. These will include policies to revive and expand consumption, mitigate financial risks and boost business confidence.

2

The Government Set a Cautious Growth Target Despite Easing Headwinds. After logging 3% growth in 2022, one of the worst performances in half a century, the government aims to expand GDP by “around 5%” this year. With growth indicators already showing positive signs due to the abandonment of zero-COVID, this target is below market expectations and thus widely viewed as easily attainable.

3

Institutional Reforms Serve to Enhance Party Governance of Critical Issues. The government will restructure existing entities — such as the Ministry of Science and Technology — and establish new ones, including the National Financial Regulatory Administration, to better support ambitions for self-reliance in science and technology and limit financial sector risks. A national data bureau will also be formed to coordinate digital strategies and development.

4

Policymakers Seek Better Coordination to Ensure Security. China faces numerous growing risks to its security both internally and externally, driven by pandemic-induced debt accumulation, looming demographic challenges and geopolitical pressures. The government will seek to bolster its security amid a broader push to ensure stability.

5

China Remains Committed to Pursuing Modernization, Digitalization and Green Development. With a focus on manufacturing, China will continue to pool resources and make concerted efforts to achieve breakthroughs in core technologies in key fields. The digitalization of traditional industries and the development of the digital economy and platform economy will also continue to receive government support.

6

U.S.-China Ties Continue to Sour as Competition Escalates. As strategic competition and targeted decoupling intensify, Beijing has increasingly criticized Washington for seeking to suppress and contain China. In his first press conference as foreign minister, Qin Gang warned of “conflict and confrontation” if the United States does not “hit the brake.” With the reopening of its border, China now seeks to accelerate its diplomacy and present itself as an alternative to Western powers.





GOVERNMENT PRIORITIES

REBUILDING ECONOMIC MOMENTUM

Achieving Realistic Growth

Given the rapid spread of COVID-19 in early 2023 and the robust rebound of economic activity during the Chinese New Year holiday, major financial institutions have upgraded their forecasts for China's GDP growth to 5.5% to 6%. Nonetheless, the government has set an annual GDP growth target of "around 5%" for 2023 after achieving only 3% growth in 2022. The relatively conservative official outlook for post-COVID economic recovery echoes the central government's prioritization of macroeconomic stability in 2023, which was highlighted at the Central Economic Work Conference in December.

It also reflects the government's concerns about uncertainties confronting the domestic economy, such as global recession risks, a protracted real estate slowdown and dwindling business confidence. Setting achievable goals for economic performance provides greater flexibility to newly staffed central and local leadership in smoothly restoring the pandemic-hit economy.

According to the Government Work Report, Beijing sees consumption recovery and expanding domestic demand as primary drivers of growth for 2023. The playbook for expanding consumption relies heavily on stable employment,

with Beijing planning to create 12 million new urban jobs, one million more than in 2022, and to increase household income through multiple channels. Although economic activity has already begun to normalize following the dismantling of China's zero-COVID policy, the employment outlook remains stark just as the number of new college graduates is expected to reach an all-time high of 11.58 million this year. Another avenue for supporting consumption will be the renewal of incentives for consumption of cars and other big-ticket items.

Restoring Business Confidence

Stringent COVID-19 containment measures including mass lockdowns, centralized quarantine and closed borders have hamstrung China's economy and tanked business confidence. Notwithstanding China's abandonment of its stringent zero-COVID strategy, business sentiment remains cautious, not least due to rising geopolitical tensions. China has sought to reassure foreign investors, exemplified by former Vice Premier Liu He's speech at Davos 2023 in which he claimed, "China's door to the outside will only open wider." The Government Work Report further emphasizes the importance of attracting and utilizing foreign investment and pledges to expand market access by further shortening negative lists and opening the modern services industry.



China will keep to the general principles of prioritizing stability and seeking progress while maintaining stability, and push for a turnaround in the country's overall economic performance.

- Premier Li Qiang



With China reopening its border and restoring connectivity with the rest of the world, renewed efforts will be made to attract foreign talent and facilitate cross-border travel, such as through establishing a commercial “green channel” and simplifying visa procedures. The government will continue to strengthen its support for major foreign investments in technology and value-added programs, such as factories and R&D centers.

Normalizing Real Estate Policy

The Government Work Report outlines two main tasks for reversing the property market's protracted slowdown: relaxing real estate financing and increasing housing transactions. It promises the government will ensure effective risk prevention and mitigation for leading property developers, assist them in improving debt-to-asset ratios and prevent unregulated real estate market expansion. This implies that Beijing will continue to take a nuanced approach to resuming refinancing for large property developers, particularly private companies, through bank loans and bond and equity markets to ensure the delivery of presold housing units and the normalized operating capacity of developers.

On the demand side, the Government Work Report emphasizes the importance of supporting first-time homebuyers and promising to address the housing needs of new urban residents and young people. Relevant policies will prompt local governments to relax additional restrictions on housing transactions and lower mortgage rates to increase home purchases. As investment sentiment and the outlook for home price recovery remain shaky, these measures may take longer than expected to boost sales volume.

Striking a Balance Between Stimulus and De-risking

Beijing set a budget deficit target of 3% this year, 0.2 percentage points higher than that of 2022. The quota for local governments' special purpose bonds, a critical funding source for infrastructure projects, is RMB 3.8 trillion (~USD 550 billion), RMB 200 billion more than in 2022. The growth of both figures is modest as market expectations have suggested the government would expand fiscal policy to

stimulate the COVID-hit economy. Instead, authorities aim to ensure the continuity of fiscal relief measures implemented over the past two years, such as business tax and fee rebates, and have vowed to improve the effectiveness of government-led investment.

Notably, the government is attempting to reduce financial risks related to local government debt. Exorbitant spending on COVID-19 controls and declining land sales have stretched local public finances in recent years. According to the Government Work Report, policymakers aim to reduce the burden of interest payments and limit the accumulation of new debts while settling existing debts. Going forward, local governments are expected to strengthen debt-settlement efforts by restructuring and swapping local debts accrued as a result of high-interest and non-standard borrowing.

Tackling Demographic Challenges

According to data released by the National Bureau of Statistics, China's population decreased by 850,000 people in 2022 to 1.412 billion, marking the first decline since 1961. This demographic turning point holds profound implications for China's development. A shrinking population will result in a smaller workforce, which will affect market output and ultimately restrain economic growth. With fewer and older consumers, China's transition from export- and investment-driven growth to demand-driven growth will encounter serious challenges.

Against this backdrop, the Government Work Report highlights the necessity of a pronatalist system. Targeted policies to ease burdens related to childbirth, childbearing and education can be expected in the near to medium term. Attempts to raise the official retirement age may also be introduced gradually. Some provinces have already begun implementing their own supportive policies, such as Sichuan Province, which recently eased household registration for newborns of unmarried couples. A recent urbanization plan issued by the National Development and Reform Commission also indicates that the government plans to deepen the integration of the rural population into the urban labor force to account for population decline and boost its contribution to overall consumption.



GDP growth target
~5%



Urban unemployment rate
~5.5%



CPI increase
~3%

CHINA'S MULTIFACETED SECURITY CHALLENGE

The Government Work Report and statements by President Xi Jinping and newly appointed Foreign Minister Qin Gang clarify that China faces an unusually risk-laden environment in 2023. At the Two Sessions, Xi warned that “in the coming period, the risks and challenges we face will become more and more severe.” The primary challenges relate to the social, economic, cyber and physical security of China.

Confronting Domestic Risks

The Government Work Report focuses primarily on domestic risks. While COVID-19 was a core concern in previous years, it has been relegated to a lingering policy issue to address through vaccine development and improved medications. More prominent domestic concerns now include reducing economic and financial risks, tackling demographic issues to ensure social stability and addressing acute challenges such as those posed by the real estate sector.

Social and economic security concerns in part stem from pandemic-era policy choices. For example, the Government Work Report makes several mentions of supporting college graduates in finding jobs, needed to ensure the youth employment issue does not become more severe. Price stabilization also receives an unusually strong emphasis as China seeks to achieve a consumption-driven recovery without relying on heavy fiscal stimulus or triggering a surge in inflation; the government target of 3% CPI increase suggests only a minor rise in prices will be tolerated. Other “imbalances” to be addressed include local debt servicing, real estate industry stability and challenges surrounding a declining birth rate and aging population.

Facing Global Pressure

In his speech, Xi urged China to “unswervingly advance” and “adapt scientifically” in the face of international risks. He repeatedly referenced calmness and stability as necessary for China to overcome the increasing number of global challenges.

Foreign Minister Qin Gang addressed more concrete issues in a meeting with the press. He staunchly opposed U.S. efforts toward decoupling and “cutting” supply chains, claiming

they undermine regional integration. He also echoed official rhetoric that the United States is attempting to “contain and suppress” China and criticized what Washington refers to as “establishing guardrails.”

On specific regional issues, Qin highlighted China’s support for the Charter of the United Nations and for a peaceful resolution of the Ukraine conflict, reiterating that China has not provided weapons to either side. He abstained from criticizing Europe’s position, stating that China sees the European Union as a comprehensive strategic partner with which it can work to ensure global stability. He also highlighted the 2022 China-Arab States Summit, during which China facilitated the restoration of Saudi-Iranian diplomatic relations.

Achieving a Balanced Response

A major theme of the Government Work Report is improving government integration on strategic policymaking, especially regarding security-related issues. It calls for a “holistic approach to national security,” as is embodied by the institutional restructuring undertaken at this year’s Two Sessions. Part and parcel of these efforts are calls to secure and better utilize China’s data, key energy resources and domestic and international supply chains. Finally, the Government Work Report’s promotion of more efficiently directing resources to R&D and innovation to achieve technological self-sufficiency has both economic and national security motives, as does the call to “move faster to develop a new energy system.”

Another overarching theme of the Government Work Report — stability — fits closely with the need to address short- and long-term risks. Improving debt-to-asset ratios for real estate enterprises, for example, will be an easier task in a year during which the government is neither encouraging accelerated economic expansion nor aggressively pursuing new regulations on industry. A government focused on maintaining stability may be better positioned to “give consideration to both development and security imperatives.”



In adopting industrial policies, we should give consideration to both development and security imperatives.

— Former Premier Li Keqiang



CHINA'S FOREIGN POLICY: NAVIGATING 'TURMOIL AND TRANSFORMATION'

Foreign Minister Qin Gang told reporters at the Two Sessions that China has pressed the “acceleration button” for its diplomacy since easing COVID-related travel restrictions. However, its assessment of the path ahead is increasingly bleak. “Uncertainties in the external environment are on the rise,” warned outgoing Premier Li Keqiang, who added that “external attempts to suppress and contain China are escalating.” Similar statements from senior leadership reveal clear frustration with the United States’ China strategy and a willingness to push back against it in the competition for global credibility and influence.

US-China Relations: Condemning ‘Containment’

China’s assessment of U.S. strategy was on full display when President Xi Jinping, in a break from the more indirect language he typically uses on the subject, told delegates that “Western countries — led by the United States — have implemented all-round containment, encirclement and suppression against us.” Qin poured cold water on Washington’s claims of seeking competition rather than confrontation, declaring that “so-called ‘establishing guardrails’ for China-U.S. relations and ‘not seeking conflict’ actually mean that China should not respond in words or action when slandered or attacked.”

New U.S. restrictions on exports of semiconductors and other technologies were among the several issues that saw disagreement between the two sides intensify last year. Hopes for a return to dialogue and a more stable relationship in 2023 were quickly dashed with the detection and destruction of a Chinese balloon in U.S. airspace in early February. Qin did not mince words on the future direction of the relationship, warning that “there will surely be conflict and confrontation” if the United States does not change course. However, he reiterated China’s aim of pursuing “a sound and stable relationship.” His comments on Taiwan, an ongoing source of tension amid signs of Taipei’s deepening military ties and diplomatic exchanges with Washington, similarly relayed familiar points on pursuing

peaceful reunification while reserving the right to take “all necessary measures.”

Maintaining Relations with Russia and Europe

Since the beginning of the war in Ukraine in February 2022, China’s position has continued to attract criticism and scrutiny in Europe and the United States, which recently claimed that Beijing is considering supplying weaponry to Russia. Qin stressed that China “is not a party to the crisis” and has not provided weapons to either side, but instead advocates for peace talks — an outcome which, he suggested, has been obstructed by an unnamed “invisible hand” that seeks escalation. On the China-Russia relationship, Qin said that ties between the two countries do not represent a threat but instead form “a driving force toward multipolarity and greater democracy in international relations.”

At the same time, China seeks to bolster its relations with the European Union, which has strengthened transatlantic cooperation in response to the Russian invasion. “We hope that Europe, with the painful Ukraine crisis in mind, will truly realize strategic autonomy and long-term peace and stability,” Qin said.

Looking to the Global South

Developing countries are another focus of China’s external messaging as it seeks to burnish its credentials as a reliable alternative to Western powers. The concept of “Chinese modernization,” which appeared in last year’s 20th Party Congress Report, again featured prominently at the Two Sessions, with Qin describing it as “an important source of inspiration for the world, especially developing countries.” China will host the third Belt and Road Forum for International Cooperation later this year as it marks the 10th anniversary of its signature development initiative, which faces new competition in the form of alternative U.S. and European projects. China also aims to expand its participation in multinational trade deals by taking “active steps” to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

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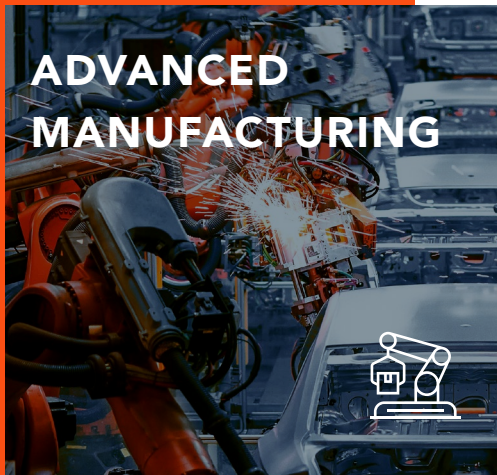
Containment and suppression will not make America great, and it will not stop the rejuvenation of China.

- Foreign Minister Qin Gang

”

IMPLICATIONS FOR HIGHLIGHTED SECTORS

ADVANCED MANUFACTURING



ENERGY AND SUSTAINABILITY



FINANCIAL SERVICES



HEALTH CARE



INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)



RETAIL AND HOSPITALITY



ADVANCED MANUFACTURING



Growth in China's high-tech and equipment manufacturing output outpaced that of overall industrial output in 2022, which saw activity disrupted by COVID-19 lockdowns. This year, a top priority for the government is achieving stable and high-quality growth in manufacturing, especially in advanced sectors.

The Two Sessions highlighted several key aspects of this agenda. First, China will continue pursuing greater technological self-reliance, particularly in "chokepoint" technologies for which it depends on foreign suppliers.

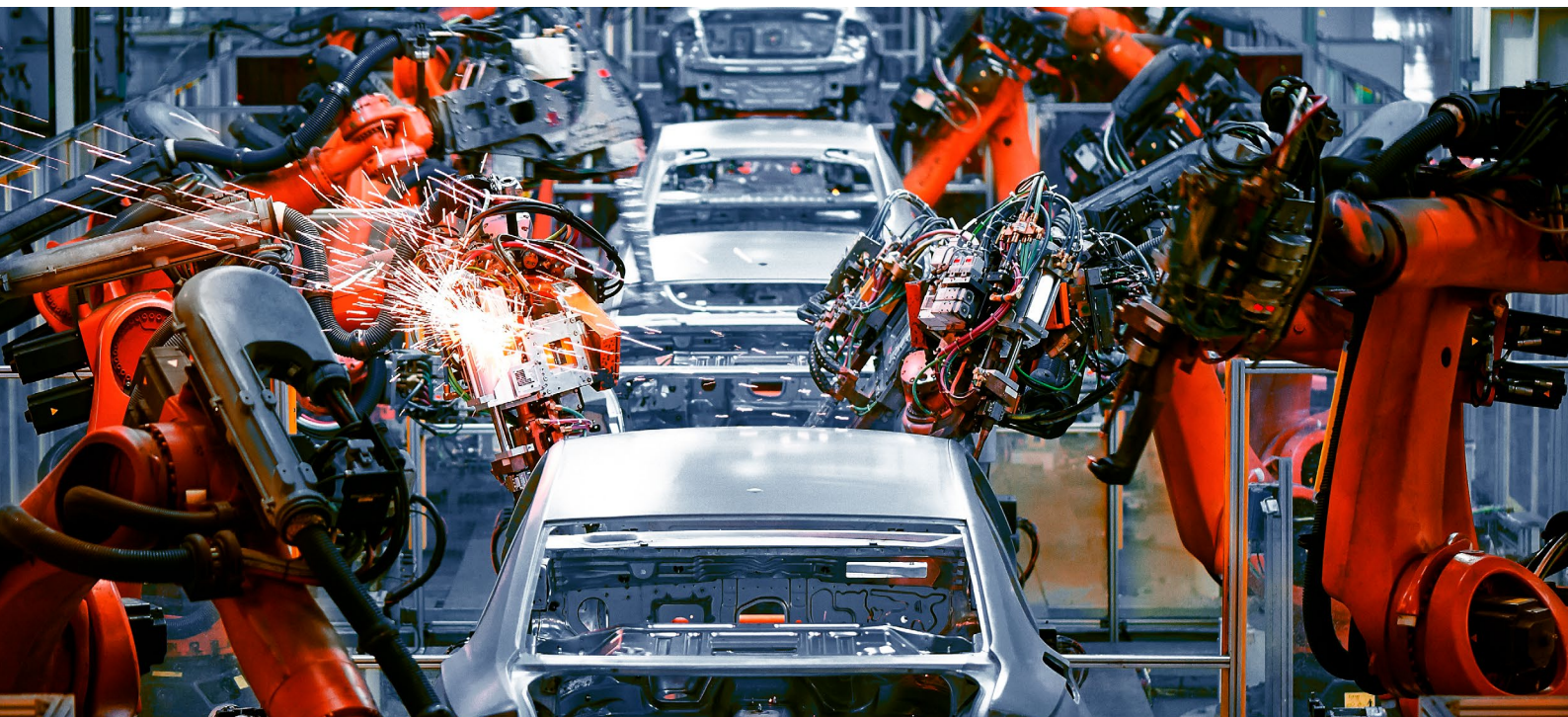
President Xi told delegates that safeguarding agricultural production and building up manufacturing are both critical for China, and that "we have to rely on ourselves to resolve those two issues." Minister of Industry and Information Technology Jin Zhuanglong listed the areas in which China aims to make breakthroughs, including basic components, software, materials and processes, as well as aircraft, medical equipment and other technologies.

This push for greater self-reliance does not necessarily mean the exclusion of foreign manufacturers. The National Development and Reform Commission pledged to encourage foreign investment in advanced manufacturing. Opportunities should remain for businesses that can offer expertise and contribute to economic growth.

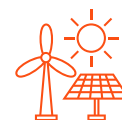
Second, China will continue pushing for the digital and smart transformation of traditional industries and SMEs. The government aims to advance the industrial application of the 5G network and build 10,000 5G-empowered factories by 2025. With these plans underway, China could see more intelligent, digitalized factories and supply chains come online across its manufacturing ecosystem this year.

Green transformation also remains on the agenda. In alignment with its climate goals, China will continue to support the application of carbon-reducing technologies and the growth of energy-saving industries while fostering green factories, industrial parks and supply chains. Local governments will be especially supportive of manufacturers that can demonstrate expertise and involvement in green and smart transformation efforts.

Lastly, China aims to optimize the geographical distribution of manufacturing activity. The government will support eastern provinces to develop advanced manufacturing while urging central and western regions to adopt industries transferred from the east. It will also pursue greater synergy within regional clusters, including the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Greater Bay Area.



ENERGY AND SUSTAINABILITY



This year's Two Sessions reiterate China's commitment to green development as one of the government's key objectives. However, given that China has attached great political significance to energy security and ensuring sustainable economic growth, coal is likely to remain a key energy resource for the foreseeable future.

Against this backdrop, the Two Sessions reaffirm China's intention to boost the share of renewable energy in the country's energy structure, curbing emissions in energy-intensive industries and investing in green technologies. This year's Government Work Report also underscores developing the circular economy and promoting efficient and intensive use of resources as important components of green development. **China will accelerate the green transformation of life and production via the platform economy and digital solutions.**

Sustainability remains a fertile ground for international cooperation. In addition to encouraging all-round green transformation domestically, the Government Work Report urges "international cooperation on climate change" and

"global climate governance" for the first time, illustrating China's ambition to participate in global climate governance.

Multinationals can therefore leverage their global decarbonization strategies and tailor them specifically to the China market, taking proactive steps to align their ESG commitments with the government's focus on supply chains, renewable energy and digital transformation. By collaborating with domestic partners and seeking high-level exposure and engagement, MNCs can further establish themselves as leaders in sustainability and responsible partners in carbon reduction and energy transformation.

Furthermore, MNCs can consider renovating their production, consumption and recycling methods to build their business practices in ways that align with government initiatives. In areas such as resource recycling, remanufacturing and green consumption, MNCs can showcase their energy and sustainability contributions and further enhance their impact via thought leadership and pilot projects.



FINANCIAL SERVICES



This year's Two Sessions reaffirmed stability as a paramount objective for financial reforms, as China strives to accelerate economic recovery and spur demand-side growth. In addition to the Government Work Report's pledge to "guard against regional and systemic financial risks," this emphasis on stability is best reflected by financial institutional reform.

With the newly established National Financial Regulatory Administration (NFRA) consolidating oversight of the entire industry except for securities, the government will likely concentrate its efforts on tackling key vulnerabilities in the financial system, such as financial holding companies. The NFRA's takeover of financial consumer protection responsibilities and increased emphasis on market conduct supervision also suggest heightened scrutiny of industry practices that encourage short-term thinking or bad investment behavior. **While the actual impact will remain unclear until a more detailed organizational structure is announced, companies should expect tightened but more unified financial regulation.**

Despite a repeated emphasis on stability, a more profound intention of the institutional reform is to lay a solid foundation for the industry's transition to a model better equipped to support the country's long-term socioeconomic development goals. The Government Work Report reiterates several other long-standing key priorities for the industry, including supporting the real economy and industrial upgrading, channeling more capital to micro, small and medium-sized enterprises (MSMEs) and facilitating employment and social security.

These development needs mean China will remain committed to expanding foreign access to the market, as increased participation by foreign companies within China's financial services sector is conducive to holding the industry to a higher standard. Multinational financial institutions can capitalize on this opportunity and complement the government's objectives by introducing good practices that increase the overall quality of services and enhance investor well-being.



HEALTH CARE



The Two Sessions did not indicate any major changes to the direction of health care policy, but rather highlighted several efforts and initiatives that are already in motion.

The Government Work Report lists savings made through volume-based procurement (VBP) as one of the major achievements of the past five years. **In 2023, VBP will become a normalized practice for many medicines and devices, impacting product pricing as well as related service charges for medical consumables.** The National Healthcare Security Administration will encourage and supervise provincial pilots to expand the scope of VBP in various product areas, from biomedicine to IVD reagents.

Improving access to health care services in rural areas and reducing geographical health disparities are high on the list of government priorities for 2023. In recent years, the government has established a growing number of medical centers specializing in certain types of diseases. These centers are expected to both drive treatment capability innovation and expand the reach of their services to surrounding regions. From oncology to trauma medicine,

these specialist centers are expected to play an important role in developing and piloting new treatment methods. Companies launching new treatment solutions in the China market can consider medical centers specializing in related disease groups when reaching out to clinical experts and targeted patient groups.

Upgrading health care technology and localizing supply chains are integral elements of China's plan for an innovation-driven economy. As is the case in many other parts of the Chinese economy, industrial policy for health care will be geared toward attracting investment that builds up domestic capabilities, especially through localized R&D and supply chains.

Lastly, the restructuring of the Ministry of Science and Technology may streamline approval for clinical studies involving human genetic resources. By placing the China National Center for Biotechnology Development under the management of the National Health Commission, the need for inter-agency coordination in the approval process for such studies will be reduced.



INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)



Faced with unrelenting geopolitical challenges and decoupling pressures, China's central government introduced a "new state-driven system" for technological self-reliance. At the 2023 Two Sessions, the government revealed concrete plans for building such a system by relying on centralized science and technology policymaking and elevating the role of enterprises in technological innovation.

At this year's meetings, the government announced it would reform national innovation-focused institutions. A new Central Commission on Science and Technology will be established to further centralize planning around technology policy. The government will also reduce the scope of the Ministry of Science and Technology and redistribute some of its execution-related responsibilities across other ministries directly overseeing key industries, including agriculture, health and environmental issues. The recipient ministries will be empowered to more closely drive industry-specific R&D strategy- and policy-setting.

The 2023 Government Work Report reaffirms the crucial role of enterprises in science and technology innovation.

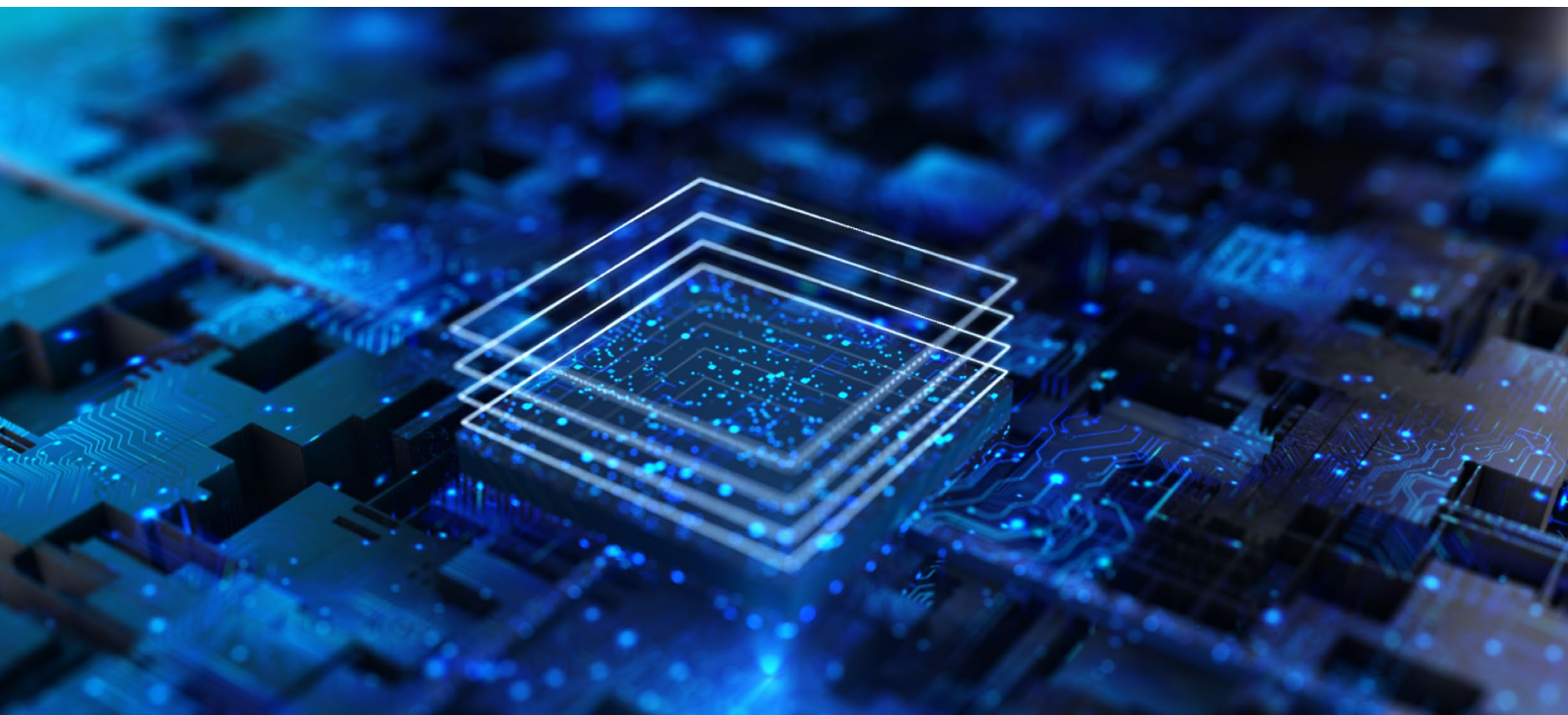
The government will expect and provide strong policy support for domestic companies — especially private companies and small firms — to invest more in R&D.

The development of the digital economy was another ongoing priority discussed in the meetings. A new national

data bureau will be established to design and develop a better integrated data infrastructure system and coordinate the sharing and utilization of data resources nationally. As it will absorb the strategic functions of multiple government entities and be situated within the National Development and Reform Commission, the national data bureau will be a key coordinator of strategies such as Digital China and the expansion of China's digital economy. Data regulation will likely remain within the CAC and data security-related regulations will continue to strengthen, such as for cross-border data reviews; other ministries will continue to regulate data in their respective sectors. In line with this structural shift, the Government Work Report pledges firm support for the digital economy, with normalized regulations to replace the crackdowns of recent years.

Foreign companies will continue to face challenges from state-supported local competitors in 2023.

Nevertheless, as the Government Work Report concedes, China's capabilities in technological innovation remain modest. Foreign ICT firms can seek business opportunities in cooperation with local players on innovation in areas supported by the government, including 5G, artificial intelligence, traditional industry modernization and smart and green technologies.



RETAIL AND HOSPITALITY



China's abandonment of the zero-COVID policy and restored connection with the outside world has unlocked the shackles on consumption, unleashing pent-up demand for services including dining, travel and entertainment at an accelerated pace. Revenue generated from domestic tourism during the Chinese New Year holiday surged by 30% compared with last year, recovering to 73% of that in 2019. Outbound travel bookings saw a 47% month-on-month increase in February 2023, according to a leading Chinese travel agency. Demand for consumer goods is also seeing an upsurge following the resumption of in-person activities. **Projections indicate that sales of luxury goods will return to year-on-year growth by the end of the first quarter of 2023 following last year's contraction.**

Chinese households typically preferred to save rather than to spend during the pandemic, resulting in a large accumulation of precautionary savings. In response, government policies have been introduced at the national and local levels to

improve consumer market confidence and stimulate spending. **In addition to renewed incentives for big-ticket items like electric vehicles, this year's Government Work Report calls for prioritizing "the recovery and expansion of consumption."** Designating 2023 as a "year of boosting consumption," the government will continue to organize innovative campaigns to boost consumption during holidays, offer incentives to accelerate the recovery of the COVID-hit hospitality sector, and expand pilots for key regional and international consumption centers.

Although increased competition from local Chinese companies and consumers' willingness to purchase domestic products will result in a more contested market, China's vast market and strong recovery momentum will continue to provide MNCs with opportunities to grow as long as they capitalize on favorable policies, enhance their premium branding and adapt to evolving consumer spending patterns.



APCO CHINA

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