

China Transitions from Crisis to Opportunity in Great Uncertainty

Understanding China's 2020 Two Sessions

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- Covid-19 pandemic is a public health incident in China that has seen the fastest spread, the widest infection range, and the most difficult challenge in prevention and control since the founding of People's Republic of China in 1949. It took China only two-months to win the battle against the pandemic. At the same time, China has also paid a huge economic price. In Q1 2020, the economic growth showed a steep decline with a decrease of 6.8% y/y.
- At present, China has entered regular pandemic prevention and control phase. China has also taken the lead in reopening the economy and accelerating the recovery. The economic growth continues to recover and improve.
- However, the world is still in great uncertainty in the shadow of covid-19, especially as the US has become the epicenter of the global epidemic, and the epidemic has further induced the deterioration of Sino-US relations.

Under this circumstance, the convening of the Two Sessions is not only a powerful proof that China's battle against covid-19 pandemic has achieved major strategic results, but also a significant sign that China's society has gradually returned to normal and the economy is gradually recovering.

1. Background of 2020 Two Sessions

2. Main Accomplishments

This year, China's National People's Congress (NPC) was held in Beijing between May 22 and May 28, and 2,897 representatives attended the conference. There were 9 agenda points, including review of 6 reports which include the government work report, review the draft Civil Code, and the Draft Decision on Establishing and Improving the Legal System and Enforcement Mechanisms for the Hong Kong Special Administrative Region to Safeguard National Security.

Premier Li Keqiang delivered the government work report on behalf of the State Council and held a press conference. The government work report and the press conference conveyed messages that China has stepped out of the pandemic while the economy is recovering, responded to domestic and foreign concerns, clarified Chinese government's policies, formulated strategies to transfer crisis into opportunities, and made the policies introduced this year national action plans.

Two Sessions recognized that the Chinese economy is facing severe difficulties and challenges:

1. Affected by the global epidemic, the world economy is in serious recession, the domestic and international industrial chains and supply chains are blocked, international trade and investment are shrinking, and the commodity market is turbulent.
2. Domestic consumption, investment and exports have declined, employment pressure has increased significantly, difficulties of enterprises, especially SMEs, have become more prominent.
3. Risks have accumulated in the financial and other fields, and the contradictions in revenue and expenditure at the grassroots level have intensified. From a global perspective, the losses are projected to be heavier than the 2008 global financial crisis.
4. China-US relations and the situation in Hong Kong and Taiwan are putting increasing pressure on China.

3. Challenges

The NPC has set a systematic targets no specific GDP growth target in 2020. China's systematic targets for 2020 covers:

1. 3.5% CPI increase
2. More stable and higher-quality imports and exports
3. 9 million new urban jobs, 6% surveyed urban unemployment rate
4. Elimination of poverty nationwide
5. A further drop in discharge of major pollutants
6. 3.6% deficit-to-GDP ratio

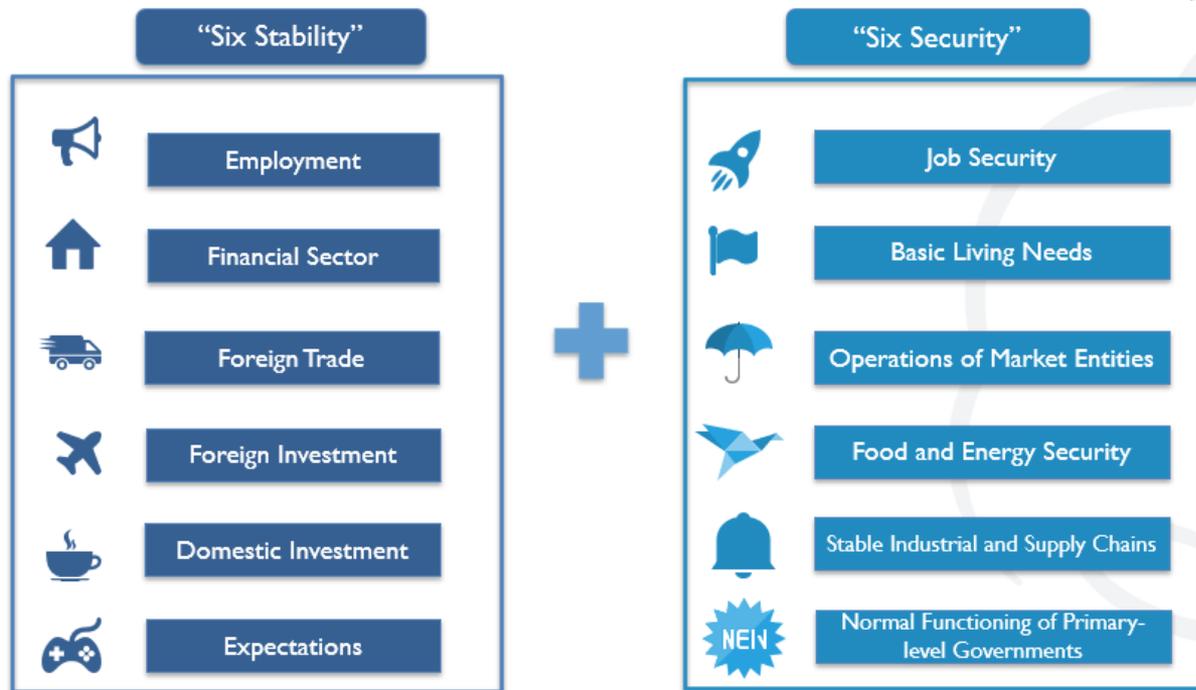
This year the NPC has not set a target for GDP growth, which is particularly noteworthy. The main reason is the uncertainties of global epidemic situation as well as economic and trade situation. China's development faces some unpredictable factors. Nevertheless, no specific economic growth target does not mean that economic growth is not appreciated. Priorities to protect enterprises, stabilize employment, and people's livelihood, and achieve the goal of eliminating poverty, which all require substantial economic growth. Development remains the last word.

Note: due to this year's unique situation, the target system is different from previous years, therefore the goals are incomparable.

4. Objectives

5. Overall Strategy

To achieve above systematic targets, the NPC adopted an overall strategy, ensuring stability on six fronts and maintain security in six areas by means of reform and opening up.



6. Action Plan (1)

To implement the strategy, the NPC adopted following action plan:

1 Revitalize economy

1.1) Stable employment is to ensure people's livelihood. 300 million migrant workers in China are difficult to return to their original jobs. Even if they return to their original positions, they are difficult to reach original level of income. In addition, there are 8.74 million college graduates this year. The government work report mentioned "employment" for 39 times, emphasizing the urgency and necessity of implementing a series of employment policies. The main entities that absorb employment are private enterprises and foreign companies. The only way to restore China's economy is to further reform and allow the market to play a decisive role.

1.2) Protecting market entities is to ensure employment. The government work report particularly emphasizes the needs to protect private enterprises by tax cuts and fee reductions. The private economy has contributed more than 50% of tax revenue, more than 60% of GDP, more than 70% of technological innovations, more than 80% of urban labor employment, and more than 90% of the number of enterprises. Therefore, employment and market entities are well protected when private companies are stable.

1.3) Proactive fiscal policy and prudent monetary policy are implemented at the local level of the city and county. In the case of tight fiscal revenue, the realization of a proactive fiscal policy will do both addition and subtraction. On the one hand, the deficit-to-GDP ratio is projected at more than 3.6%, which increases RMB 1 trillion of financial funds. The central government will also issue RMB 1 trillion of government bonds for covid-19 control and transfer nearly RMB 1 trillion from the operational budget of state-owned capital. It will also increase the scale of special local government bonds by RMB 1.6 trillion. On the other hand, the government cut more than 50% of expenditures on non-essential and non-obligatory items.

6. Action Plan (2)

2 Expand domestic consumption

2.1) Expand domestic private consumption. China's domestic demand has great potential, and it is necessary to deepen the supply-side structural reform, highlight people's livelihood, and effectively promote consumption and investment expansion. By stabilizing employment and promoting income growth to protect people's livelihood, increase residents' willingness and ability to consume. Support the restoration and development of service industries such as catering, shopping malls, tourism, and housekeeping etc, and promote online and offline integration. Multiple measures should be taken to expand consumption to meet diversified needs of the consumers.

2.2) The government consumption and investment in new infrastructures to create new consumption needs. The Chinese government will focus on investing in infrastructure projects and urbanization projects that not only promote consumption and benefit people's livelihood, but also adjust the structural stamina, including the development of a new generation of information networks, the expansion of 5G applications, the promotion of new energy vehicles, the stimulation of new consumer demands, and the promotion of industrial upgrading.

2.3) Develop new formats such as high-tech and e-commerce and create consumption. In terms of economic development, high-end manufacturing + digitalization will take a more important position, using Artificial Intelligence, Blockchain, Cloud and Data (ABCD) and other technologies to develop strategic emerging industries such as life science and new materials so as to promote technological innovation and constantly form new business opportunities.

6. Action Plan (3)

3 Reform of the medical system and emergency system

Rebuilding medical system takes a more important position in people's livelihood. Reform the disease prevention and control system, improve the direct reporting and early warning system of infectious diseases, and insist on timely and transparent release of epidemic information. Make good use of government bonds for covid-19 control and increase investment in research and development of vaccines, drugs and rapid testing technologies. Promote the revitalization of TCM. Strict food and drug supervision to ensure safety.

4 Eco-environmental protection

Improve the effectiveness of ecological environment governance. Highlight pollution control according to law, being scientific and precise. Deepen air pollution control in key areas. Strengthen the construction of sewage and garbage disposal facilities. Accelerate the relocation and transformation of enterprises producing dangerous chemical products. Strengthen the energy conservation and environmental protection industry. China will not reduce the intensity of environmental protection because of economic difficulties.

6. Action Plan (4)

5) Optimize the operating environment for foreign investment

5.1) Promote reform by opening up, shorten the negative list of foreign investment, expand and stabilize foreign investment. The negative list for foreign investment will be significantly shortened, and a negative list will also be drawn up for cross-border trade in services. A higher level of opening to the outside world through the free trade pilot zone, free trade port, and comprehensive bonded zone to optimize the investment environment.

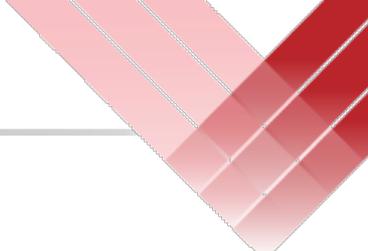
5.2) Stabilize the overall performance of foreign trade. Foreign investment and foreign trade have contributed more than 25% to China's tax revenue, created more than 200 million directly and indirectly employment, of which more than 80 million are migrant workers. Since the covid-19 pandemic, foreign trade enterprises have been given preferential policy support in fiscal taxation, financial insurance, and industrial and supply chains. The government work report indicated that follow-on policies will be introduced to further support foreign trade related enterprises to increase orders and contracts, secure employment, lower compliance costs, support domestic sale of export products, accelerate the development of new business formats such as cross-border e-commerce, and enhance international freight capacity.

6. Action Plan (5)

5) Optimize the operating environment for foreign investment

5.3) Implement the phase one China-US economic and trade agreement. At the press conference, Premier Li Keqiang emphasized that China and the US should expand common ground and control differences. He specifically mentioned that the business community is the main body of cooperation, and the business community must abide by the business principles. In response to reporter's question, Foreign Minister Wang Yi mentioned that it is true that China and the US have many disagreements, but that does not preclude cooperation. China remains prepared to work with the US in the spirit of no conflict or confrontation, mutual respect and win-win cooperation and build a relationship based on coordination, cooperation and stability. China and the US need to work together on a number of urgent things, share experience and learn from each other's best practices to bolster our respective responses to covid-19, jointly participate in and advance multilateral cooperation against covid-19, while getting prepared for a long fight against covid-19 and maintaining our ongoing response, start to communicate and coordinate macro-policies to mitigate the impact of covid-19 on economies and the world economy. The inclusion of the phase one China-US Economic and Trade Agreement released the signal that China will continue to open and cooperate with the US under the current complex international situation.

5.4) Promote regional cooperation and Belt and Road cooperation, adhere to multilateralism and free trade.



Overall strategy

Ensuring stability on six fronts and maintain security in six areas by means of reform and opening up.

To implement the strategy, formulated 5 major action plans:

Revitalize economy

Expand domestic consumption

Reform medical system and emergency system

Eco-environmental protection

Optimize the operating environment for foreign investment



7. China's Future Trends (1)

The NPC made a clear explanation on the overall goals of China's economic and social development, its development strategy and a series of action plans in 2020-2021. With the implementation of these overall strategies and various actions, we expect the China will have following trends in the future:

Invariability despite of variability – taking the initiative

1. Adhere to the basic economic system. Following the outbreak of the covid-19, there has been much debate on whether China will adhere to the basic economic system. The so-called adherence to the basic economic system refers to the adherence to the two-track system – state owned economy and private economy, and the adherence to the diversified distribution system. Facts have proved that adherence to the basic economic system, in terms of economic development momentum, the private economy and foreign companies will play a greater role, especially in manufacturing and service industries. Giving full play to the role of private enterprises and foreign enterprises to fight the epidemic and restore the economy has a fundamental and decisive position, which has an important impact on the effectiveness of national governance.

2. Adhere to market-oriented reforms and implement various goals through reforms. On May 11th, the "Opinions of the CPC Central Committee and the State Council on Accelerating the Improvement of the Socialist Market Economic System in the New Era" required unwavering deepening of market-oriented reforms, expansion of high-level opening-up, and continuous breakthroughs in key and fundamental reforms of the economic system. At this year's NPC, Xi Jinping once again reiterated that China cannot return to the path of planned economy.

7. China's Future Trends (2)

3. Persist in opening up to the outside world, and use opening up to promote domestic reforms. The market access space will be further increased, and the efficiency of administrative approval will be further improved. Through reform and opening up to unblock the industrial cycle, market cycle, economic and social cycle, in order to deal with the damage caused by the epidemic on domestic and international industrial and supply chains. In terms of economic form, an open economy will reach a new level in terms of the degree of market openness and the depth of melting with international capital.

4. The domestic market will play a greater role in restoring the domestic economy. This is not only a characteristic of China (1.4 billion population, 400 million middle class), but also a focus of China's development and an attraction for foreign capital. During the recovery of the domestic market economy, new formats of the digital economy are constantly emerging. Industrial Internet, smart manufacturing, e-commerce and online shopping, online services, etc. will receive more support policies and greater room for development. As new formats of the digital economy continue to emerge, there will be major changes in working styles and lifestyles.

China's adherence to the basic economic system, adherence to market-oriented reforms, and adherence to opening up have demonstrated the coherence, consistency, and stability of China's policies. China's huge domestic market provides a vast material space for China's economic recovery.

7. China's Future Trends (3)

Variability on top of invariability – proactive preparedness

1. China's overall economic policy changed from more emphasis on "growth" in the past to more emphasis on "security" and "stability". By achieving "Six Stability" based on the "Six Security", China's economy can be restored, and society can maintain relatively stable development. This change is in line with the Chinese government's "bottom-line thinking" principle, which is to prepare for the worst scenario and strive for the best results. "Security" and "stability" are the worst plan, and economic growth is the best result. China has also made long-term ideological preparations and work preparations to respond to changes in the domestic and external environment.

2. There will be greater uncertainty and risks at home and abroad. The international environment (global epidemic trends, Sino-US relations, etc.) and the risk of China's domestic epidemic rebound will cause huge uncertainty and more unpredictable challenges in China. In the face of the epidemic that has not been encountered in a century and the global economy that has been hit hard and in decline, in the face of the large number of unemployment and livelihood difficulties caused by the economic recession, and in the face of the widening gap between the rich and the poor, domestic and foreign social dissatisfaction manifested as nationalism and populist. The climax is bound to cause widespread tension in international relations and bring greater uncertainty to the economic development of countries including China. While grasping the prevention and control of the epidemic on the one hand and the economic recovery on the other, China is striving to handle international relations in a spirit of solidarity, cooperation, sharing and coordination with the outside world.

8. MNCs' Opportunities in China



Great potential exists.
The challenge is how to
Turn potential into reality

Opportunities Call Us to Take Proactive Actions



In ancient China, there was a farmer working in the field. Suddenly a hare dashed itself against a tree and died. The farmer had an unexpected fortune although he had done nothing to earn it. From that day on, he waited at the tree, waiting for another miracle, but when no more hares run into the tree, he died out of starvation.

Chinese always use this proverb to refer to the people dreaming to have fortune falling on their heads without proactive efforts.

Invariability and Variability

We have a very clear and unchanged goal, which is to protect and expand the market position of XXX (client) in China by establishing a positive corporate image.

We have clearly understood and grasped the keys necessary to help XXX (per client) win in China. The past experiences tell us that as long as we actively, persistently, and in various forms cooperate, share, coordinate and complement with the Chinese government, industry associations, enterprises, consumers, brands and retailers and other stakeholders, we will surely achieve the goal of win-win with China. The key is to more proactively engage and grasp opportunities. This is our overall strategy to turn crisis into opportunities, which we persist.

In the face of tremendous uncertainty, we need to change our way of thinking and do everything possible to adopt a more flexible way of working. We should do our best to smoothly transit to the new normal in the spirit of "Dunkirk Great Retreat". **Every boat counts!**

Five Tips From Policy Research during Covid-19

As an ancient Chinese philosopher once said: *“Confined to destitution, one should focus on perfecting his purity and integrity; But blessed with good fortune, one should try his best to share.”*

Below is my 5 tips to share:

Facts.

1

Our mission is to reduce the uncertainties among this biggest uncertainty in recent history. However, there are many rumors found on social media, causing more panic and chaos among the public. Therefore, separating facts from rumors based on scientific judgment will be our first valuable deliverable to our clients.

Insights.

2

Clients will not be satisfied with facts only, but they need insights behind those facts. On the surface, chance plays an important role, however, chance is always dominated by internal hidden laws. Our mission is to discover these laws and navigate the business weather the crisis.

Can do spirit.

3

Some philosophers have only interpreted the world, but the point is to change it. The good captain survives the high seas by grasping fate in his own hands. Right now, we are proactively monitoring the situation in flux, engaging with Chinese government officials, and elevating clients' position in China.

Opportunities.

4

Crisis and opportunities come hand in hand. Understanding the crisis is crucial, but more importantly, we try to turn crises into opportunities for clients.

Historical perspective.

5

A crisis is not the end of the world but a small piece of human history. “If winter comes, can spring be far behind?” Let’s always keep positive!



Thank you!