



What are the business implications from China's Two Sessions?



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Executive summary:

The Two Sessions of the NPC and CPPCC provide us a unique opportunity to comprehensively observe and study China's economic policies, government administration, legislation and also politics.

Studying and implementing Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era is a major task for both the NPC and CPPCC in 2019.

Making contributions for the reform (including supply-side structural reform), opening up, and stability, is another key task for both the NPC and CPPCC.

The Chinese government has set the major economic targets for 2019 including: GDP growth of 6% to 6.5%, creating 11 million new urban jobs, maintaining the surveyed urban unemployment rate at around 5.5% and keeping CPI growth at around 3%.


It is very clear that China is going to speed up all-round opening up by improving the business environment, particularly in terms of rule of law and opening up more areas to foreign investment.





BACKGROUND -
What are the Two
Sessions?





The national Two Sessions or “Lianghui”, are the annual plenary sessions of the National People’s Congress (NPC) and the National Committee of the Chinese People’s Political Consultative Conference (CPPCC, or the People’s PCC).

As China’s national legislature, the 13th NPC has 2,980 members (probably the largest parliamentary body in the world) and were elected in 2018 for a term of five years. This is the second session for the 13th NPC. Because of the large number of members coming from across the country, usually, the NPC meets in full session for roughly two weeks each year in the spring and votes on important pieces of legislation.

While the NPC’s session takes place in Beijing, meetings for the CPPCC, China’s political advisory

body, also occur almost simultaneously. Quite different from NPC, delegates of the CPPCC are nominated from a range of political parties (including the Communist Party of China which is the largest and most dominant party in the CPPCC), organisations, and independent members, who also serve a term of five years. The role of the CPPCC is similar to a political advisory house, which serves as a multi-party cooperation and political consultation system. Compared to the 13th NPC, the 13th CPPCC has a smaller number of 2,158 members. Nearly 40% of the CPPCC committee members are from the Communist Party of China (CPC), and the rest are non-CPC. Their average age is 56 and 1,971 committee members have received a university degree or higher education.



AGENDA -

What happened
during the two
weeks?

The 2nd Session of 13th NPC

- Main Agenda

4 Plenary Meetings

05 March 2019

The 2nd Session of the 13th NPC opens

Premier **Li Keqiang** delivered the Government Work Report. Legislators reviewed draft plan for national economic and social development and drafted 2019 budgets.

08 March 2019

Second Plenary Meeting

Li Zhanshu, chairman of the National People's Congress Standing Committee (NPCSC), delivered a work report.

Wang Chen, the vice chairman of NPCSC, illustrated Foreign Investment Law draft.

12 March 2019

Third Plenary Meeting

SPC and SPP Reports were delivered.

15 March 2019

Fourth Plenary Meeting

Votes were held for resolution drafts of work reports, Foreign Investment Law of PRC (Draft) and the relevant.

13 Press Conferences

06 - 7 March 2019

He Lifeng, Head of the National Development and Reform Commission

Liu Kun, Minister of Finance

Liu Yongfu, Head of the State Council Leading Group Office of Poverty Alleviation and Development

08 March 2019

Wang Yi, State Councillor and Foreign Minister

NPC Legislation and Supervision work was released to media.

Zhong Shan, Minister of Commerce

Xiao Yaqing, Chairman of SASAC

Yi Gang, the Governor of the People's Bank of China

Wang Zhigang, Minister of Science and Technology

Zhang Mao, General Director of Market Supervision Bureau

Li Ganjie, Minister of Ecology and Environment

09 March 2019

12 March 2019

Zhou Qiang, Chief Justice of Supreme People's Court (SPC)

15 March 2019

The Session Closed

Premier **Li Keqiang**

3 March, Sunday

3 pm: The National Committee of the Chinese People's Political Consultative Conference (CPPCC) opened its second annual session. The CPPCC listened and deliberated on the report of the Standing Committee of the 13th CPPCC National Committee, and also learned about the proceedings of previous proposals.

4 March, Monday

11:15 am: News conference of the second session of the 13th NPC.

All day: Group discussion on the work report of the Standing Committee of the 13th CPPCC National Committee, and the report on proposals it has received.

5 March, Tuesday

9 am: The second session of the 13th NPC opened and Premier Li Keqiang delivered the Government Work Report. CPPCC members were invited to attend. NPC reviewed draft plan for national economic and social development and draft 2019 budgets.

6 March, Wednesday

All day: NPC and CPPCC held group discussions on the Government Work Report.

7 March, Thursday

All day: NPC and CPPCC held group discussions on the Government Work Report, the plan for national economic and social development, and draft 2019 budgets.

8 March, Friday

3 pm: NPC held a plenary meeting to hear the work report of the NPC Standing Committee and explanation of draft foreign investment law.

All day: CPPCC took one day off.

9 March, Saturday

Morning: CPPCC discussed draft foreign investment law.

Afternoon: CPPCC held its second plenary meeting and listened to speeches on economic issues.

All day: NPC held group discussions on work report of NPC Standing Committee.

10 March, Sunday

Morning: CPPCC discussed improving the work of CPPCC.

Afternoon: CPPCC held its third plenary meeting and listened to speeches on education, culture, healthcare, senior care, employment, and even artificial intelligence.

All day: NPC held group discussions on draft foreign investment law.

11 March, Monday

Morning: CPPCC held group discussions on issues of common concern.

Afternoon: CPPCC held its fourth plenary meeting and listened to speeches on the peaceful reunification of China, "One country, two systems", One Belt and One Road, regional development etc.

All day: NPC delegates took one day off.

12 March, Tuesday

Morning: NPC listened to work reports of the Supreme People's Court (SPC) and Supreme People's Procuratorate (SPP). CPPCC members were invited to attend.

Afternoon: NPC held panel discussions on the draft foreign investment law and reports of the SPC and SPP. CPPCC discussed the two reports and drafted CPPCC documents.

13 March, Wednesday

Morning: The annual session of the CPPCC closed. Draft resolution on the work report of the Standing Committee of the 13th CPPCC National Committee, and another two draft reports were approved.

All day: NPC attended panel discussions on the work reports of the SPC and the SPP.



The second session of the 13th NPC opens at the Great Hall of the People in Beijing, March 5, 2019. (Source: Xinhua)

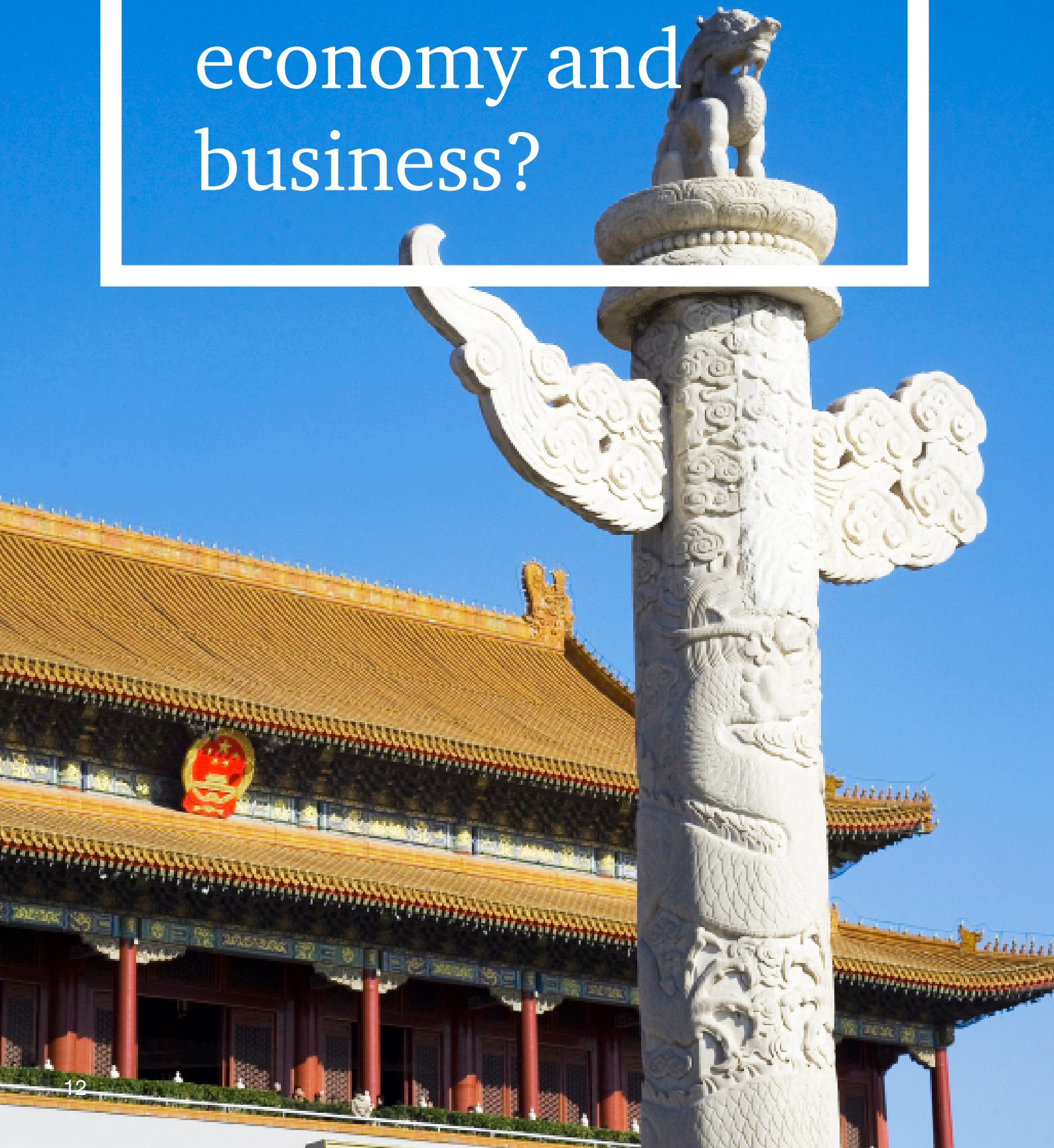
14 March, Thursday

All day: NPC held panel discussions on the final draft of the foreign investment law.

15 March, Friday

Morning: The second session of 13th NPC closed and China's first unified foreign investment law was passed. NPC also approved resolutions on the government work report, and the work reports of the NPC Standing Committee, the SPC and the SPP.

What significance
does it have for
economy and
business?



Highlights of 13th CPPCC National Committee work report

As mentioned by Wang Yang, chairman of the 13th CPPCC National Committee, in his work report, fighting three critical battles against significant risks, poverty, and pollution, and promoting high-quality development was the focus of CPPCC's consultations in 2018.



In fact, in 2018, the CPPCC submitted 5,360 proposals, out of which 41% covered high-quality economic development, supply-side structural reform, and new concepts of development, while 29% covered poverty alleviation and people's well-being. These have played an important role in serving policy-making.

For 2019, the CPPCC's top three tasks are listed as studying and implementing Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, building a moderately prosperous society in all respects and deepening supply-side structural reform, as well as making greater efforts for unity and building friendly internal and external ties.

Highlights of the Government Work Report

In the 2018 review section, Premier Li Keqiang admitted China's economy is facing increasing downward pressure and many difficulties. Meanwhile, external risks are on the rise and internal risks are still opaque in the financial sector and other sectors.

Major economic targets for 2019 include: GDP growth of 6% to 6.5%, creating 11 million new urban jobs, maintaining the surveyed urban unemployment rate of around 5.5%, keeping CPI growth at around 3%, reducing the population living in poverty in rural areas by 10 million and cutting energy consumption per unit of GDP by 3%.

The main tasks for 2019 include the following:

1. Cutting the corporate burden by reducing the value-added tax (VAT) rate from 16% to 13% for manufacturing and other industries. The total amount of tax cuts and social insurance reductions should save two trillion yuan for enterprises;
2. Maintaining steady automobile consumption particularly on new-energy vehicles;
3. Speeding up infrastructure investment such as 1.8 trillion yuan for road construction and waterway projects, and 800 billion yuan for railway construction;
4. Spending one trillion yuan on education, and an additional 100 billion yuan on vocational education;
5. Improving medical and health services by lowering and unifying the deductible threshold for serious disease insurance, and raising the reimbursement rate from 50% to 60%;
6. Cutting mobile internet services fees by 20%;
7. All-round opening up by shortening the negative list for foreign investment, expanding the China (Shanghai) Pilot Free Trade Zone, and propelling China-US trade negotiations;
8. Coordinating regional development by upgrading integrated development of the Yangtze River Delta to a national strategy.

Highlights of NPC Standing Committee report

Based on the report by Li Zhanshu, chairman of the NPC Standing Committee, in 2018, the major achievements of the 13th NPC included:

- Studying and implementing Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the main political task to ensure that NPC work follows the correct political orientation;
- Guaranteeing reform, opening up, and stability with legislation, for instance, eight laws were formulated, 47 laws were revised, and nine decisions on legal issues and other major issues were adopted.

In 2019, the top three key tasks included:

- Persistently promoting the implementation and supervision of the constitution;
- Improving the quality and efficiency of legislative work with a focus on laws related to deepening market-oriented reform and expanding high-level opening up;
- Strengthening the pertinence and effectiveness of supervision especially on deepening supply-side structural reform and promoting high-quality development.

The background of the slide is a photograph of several red flags waving on tall poles against a clear blue sky. The flags are the primary visual element, with their vibrant red color contrasting sharply with the light blue background. The text is overlaid on a semi-transparent white rectangular box in the center of the image.

IMPLICATIONS -
What are the
takeaways?

The Two Sessions of NPC and CPPCC provides us with a unique opportunity to comprehensively observe and study China's economic policies, government administration, legislation and also politics. Because government policies play a significant role in driving the country's economic growth, doing business without this policy awareness might lead businesses in the wrong direction or lead them to experience a worst case scenario. We conclude the following points from the Two Sessions from a business perspective:

First, China will speed up the all-round opening up of the economy by improving the business environment, particularly in terms of rule of law and opening up more areas to foreign investment.

As we can see from the above agenda of the Two Sessions, the NPC has spent lots of time in drafting foreign investment law, meanwhile the CPPCC National Committee has also made a significant contribution. The new law will enhance the transparency of foreign investment policies and ensure that foreign enterprises participate in market competition on an equal basis. Based on the new law, foreign investment will be managed according to the system of pre-established national treatment as well as a negative list.

Additionally, in the government report, Premier Li Keqiang also called to further relax market access, reduce the negative list of foreign investment, and allow more sectors to implement wholly foreign-owned operations.

In fact, in 2018 China has opened up many sectors to foreign investment. For instance, foreign financial institutions have made significant progress in entering the Chinese market, covering securities, insurance, credit rating market and etc. Furthermore, foreign investment in China's bond market has increased by nearly 600 billion yuan in 2018, and the total amount has now reached to about 1.8 trillion yuan.

In 2019, aside from the fact that the financial sector and automobile industry will be opened to a greater degree, it is expected agriculture, mining, manufacturing and services sector will also be open up further for direct foreign investment .

Second, China will continue to fight three major battles against significant risks, poverty and pollution.

As explained in the government report, policy measures including structural deleveraging, guarding against abnormal fluctuations in financial markets, and steadily handling of debt of local governments will be implemented in order to prevent risks. More specifically, it is important to keep balance between preventing risks, and at the same time maintaining steady growth.

Regarding poverty alleviation, SOEs and some large private enterprises have been very active in responding to government policy. It would be a bonus in terms of dealing with the government authorities if foreign-owned enterprises also contributed to poverty alleviation. Given many multinational corporations (MNCs)

often run a variety of corporate social responsibility programmes, perhaps it would not be difficult to add poverty alleviation to their scope of work.

While severe air pollution has dropped compared to the past, it still occurs in major cities including China's capital city Beijing. Measures to prevent and control pollution levels will continue to be implemented. This will increase the cost for some companies particularly small and medium-sized manufacturers to improve waste quality. However it will also create business opportunities for those in the environmental protection sector.

Third, supply-side structural reform still plays a vital role in economic development.

Supply-side structural reform (or more specifically including measures for capacity reduction, destocking, deleveraging, cost reduction and improving underdeveloped areas) has been implemented by the Chinese government since November 2015 and has significantly improved the quality of China's overall economy. For instance, in 2018, more than 30 million tons of iron and steel, and 150 million tons of coal production capacity has been removed. As a result, both sectors have become much more profitable and have generated higher quality products.

In addition to the elimination of excess capacity, other supply-side structural reforms such as deleveraging, destocking, cost reduction and improving underdeveloped areas also achieved dramatic results. Looking forward to 2019, supply-side structural reform will still play a vital role. As emphasised by the government report, the implementation of the reform has to be market-oriented, and should use legal tools.

Fourth, manufacturing and consumption will benefit from tax cuts for the manufacturing sector and individual tax deductions.

As mentioned earlier, the VAT rate for manufacturing and other industries will be reduced from 16% to 13%. During the year, the total amount of tax cuts and social insurance reductions should save two trillion yuan for enterprises. This is definitely a positive policy measure to support the development of high-quality manufacturing, which was also mentioned nearly three months ago during the annual Central Economic Work Conference.

According to the chief of State Taxation Administration, 80 million individuals will no longer need to pay income tax and 65 million individuals will enjoy tax deductions of more than 70%. This covers nearly 19% of China's total employed population in 2018, which accounts for approximately 780 million people. Meanwhile, the new tax deduction policy will also benefit many individuals with medium and high levels of income.

As a result, individual tax deductions will definitely boost consumption which will create additional growth opportunities for relevant industries and companies.

Furthermore, the government report also guided

financial institutions to expand credit delivery, reduce loan costs, and accurately and effectively support the real economy. Thus, it will be easier to obtain financing and loan costs will be lowered, particularly for small and medium-sized enterprises. Financing will become easier not only for private companies, but also for MNCs doing business in China.

Finally, although the leading forces of Two Sessions are the NPC and CPPCC, the government work report delivered by Premier Li Keqiang contain the majority of measures that will have a greater impact on economy and business. The report has more than 20 pages with almost 20,000 Chinese characters and took the Premier nearly 100 minutes to read.

Therefore, there are a lot of government policies that have emerged from Two Sessions, not only the government report, but also the ministers' press conference etc. For instance, it is expected that private enterprises, particularly micro, small and medium-sized enterprises will have better access to financing at a fair price. In summary, the above agenda, highlights, and implications cover many of the significant issues facing China's economy and businesses.

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