

Insights

2023 CHINA “TWO SESSIONS”: KEY TAKEAWAYS FROM THE GOVERNMENT WORK REPORT

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SUMMARY

The National People’s Congress, as an important part of China “Two Sessions”, started its annual meeting on 5 March 2023, in which Premier Li Keqiang delivered the government work report for 2023 (“GWR”) to policymakers, setting the tone for the Chinese economy in the coming year. The GWR touched on important aspects of economy and trade, namely foreign investment, boosts to funding and technological innovation. We have set out below the key takeaways from the policy measures outlined in the GWR, as a brief guide to assist foreign investors with an interest in understanding the direction of the Chinese economy in the post-COVID era.

TARGET GDP GROWTH AROUND 5%, AND STIMULATE EMPLOYMENT AND DOMESTIC CONSUMPTION

The GWR indicated that China aims to boost its gross domestic product (“**GDP**”) by around 5% this year, with intensified and more targeted macroeconomic policies to stabilise economic growth. China will target its focus towards increasing domestic consumption and restoring business confidence, particularly in the tourism, catering and retail sectors, with the aim of achieving a 3% rise in its consumer price index. The GWR also stipulated that approximately 12 million new urban jobs will be created in 2023, demonstrating the stimulation of employment as a top priority post-COVID.

In view of China’s strong economic recovery in the past two months, this modest GDP goal is a clear step towards striving for economic stability by means of high-quality, sustained growth.

STRENGTHEN POLICIES TO ATTRACT FOREIGN INVESTMENT

As stipulated in the GWR, China will continue to intensify efforts to attract foreign investment and launch landmark foreign-funded projects. If we look back at the past 5 years, policies such as the enactment of the Foreign Investment Law, the further reduction of items on ‘negative lists’ and the

establishment of 21 pilot free trade zones (including the new Hainan Free Trade Port), it is clear that strong efforts to attract foreign investment have been made. Li Keqiang stressed that this emphasis is set to continue as China increases market access for, and encourages the “national treatment” of, foreign investors.

Specifically in a move to boost digital trade and high-quality investments, China announced it will join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (“CPATPP”), which is a high-end trade and investment pact. Members of CPATPP are aligned in efforts to counter challenges posed by external competitors of international trade and the usage of foreign capital.

Several measures referred to in the follow-up government budget report during “Two Sessions” also mirror the overarching sentiment of attracting foreign investment, these include:

- China’s announcement it will play a greater role in the Regional Comprehensive Economic Partnership Agreement, the world's largest free trade pact, and set an example for other signatories;
- The Government’s commitment to proposing favourable policies on tariffs, import-related taxes and tax refunds; and
- China’s expansion of its importing of advanced technologies, important facilities and energy resources.

EMPHASISE THE IMPORTANCE OF TECHNOLOGY AND ESG

The GWR emphasised the importance of technology and ESG as necessities for long-term growth. These two sectors have historically attracted more capital for investment from government support measures, as well as from private market players.

1) Build self-reliance in science and technology

Li Keqiang called for the Chinese government to promote and facilitate key technological breakthroughs. While enterprises will be the main drivers for innovation, the government intends to take the following steps to implement the GWR blueprint:

- China plans to restructure its Ministry of Science and Technology in line with a reform plan submitted to the National People’s Congress following the GWR. The aim is to better allocate resources so as to implement a new system to mobilise towards breakthroughs in the technological space;
- China will continue to expand its 5G network while further promoting the research and development of 6G and other cutting-edge technologies. This includes humanoid robots, metaverse, quantum technology and more, so as to better support the implementation of a modern industrial system; and

- Leaders of domestic technology companies have proposed that China accelerates the construction of artificial intelligence (“AI”) models to reap the rewards of the current and future AI boom.

2) Focus on ESG

The GWR also highlighted that focus will be concentrated on green and low-carbon developments.

The aims and means of affecting this focus are as follows:

- China aims to intensify pollution prevention and control, moving quickly to develop a new energy system, improve policies for green development, and advance energy conservation and carbon reduction in key areas;
- As tensions within international politics rise, so does the attention on energy security. China needs to work on developing relevant technologies that will promote clean and efficient use to ensure energy security and achieve developments in green energy. Emerging forms of green generation have not yet been able to cover the rebound growth in demand post-COVID; and
- China will continue to enhance market coverage of electric vehicles as part of its stimulus package to boost new energy in the motor and vehicular industry, in addition to promoting the wider use of battery swap technology. Automotive industries have echoed this sentiment, urging the government to roll out supportive policies to reduce the construction cost of battery swap facilities and to push for a standard battery design among different manufacturers.

REINFORCE THE SUPPORTIVE POLICIES FOR THE GUANGDONG-HONG KONG-MACAU GREATER BAY AREA

Regarded as the southern economic powerhouse of the nation, Greater Bay Area has been further developed in recent years to support Hong Kong’s economy and businesses. The GWR addressed the fact central government will guarantee Hong Kong and Macau continue to enjoy high levels of autonomy to ensure and facilitate the development and stability of the two regions.

The GWR specifically outlined supportive policy areas regarding the Greater Bay Area (summarized below) which show the valuable opportunities this area will be afforded in future developments:

- By tapping into the booming domestic demand, giving priority to the recovery and expansion of consumption and promoting the recovery of the life-services sector, the Greater Bay Area will enjoy a share of the mainland consumer market for the products and services offered there;
- After travel with mainland China is restored, Hong Kong will play a bigger role as the super–connector: increasing efforts to attract foreign capital by expanding market access and better serving foreign entities; and

- As the GWR proposes, with the accelerated construction of a modern industrial system that focuses on advancing core technological research, Hong Kong is now committed to transforming its industrial structure. The emerging innovative technology industries in Hong Kong's economy will benefit from the mainland's existing modern industrial system, principally by integrating Hong Kong into the Greater Bay Area and building close connections with Shenzhen's sci-tech zone. The intention is to produce a multi-faceted approach to drive the evolution of Hong Kong's traditional economy.

CONCLUSION

There is much to deduce from the GWR. China has delivered the message loud and clear that it is open for foreign capital investment and has pinpointed full economic recovery as the top priority for 2023. Instead of setting an ambitious GDP growth target, China aims to gain, and maintain, high quality and sustainable growth. In its active promotion and creation of an advanced and attractive environment for foreign investors, the government will likely take a pro-business stance, reducing restrictions on market entry and promoting policies to attract foreign investment. Furthermore, market attitudes towards the appointment of Li Qiang as Premier are optimistic as the successor is typically viewed as an advocate for foreign business and investment. Therefore, business leaders and foreign investors are advised to be on the lookout for legislative changes that may emerge in the coming weeks.

This article was co-authored by Janet Lou and Hannah Smyth.

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