



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Decoding China's 2023 Two Sessions

Takeaways for Businesses



Today's Speaker



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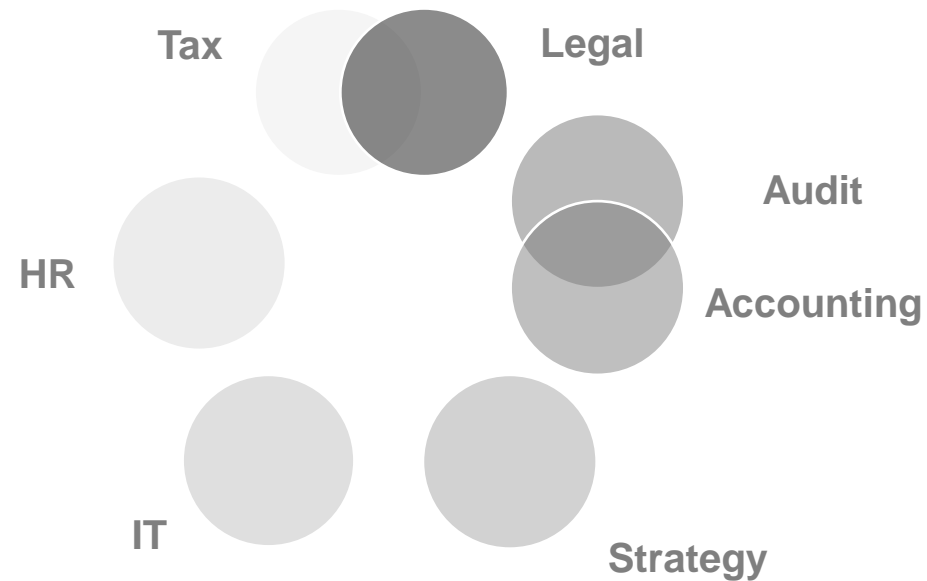


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Our Services *integrated solutions*

Traditional Model



Dezan Shira & Associates' Integrated Pan-Asia Model



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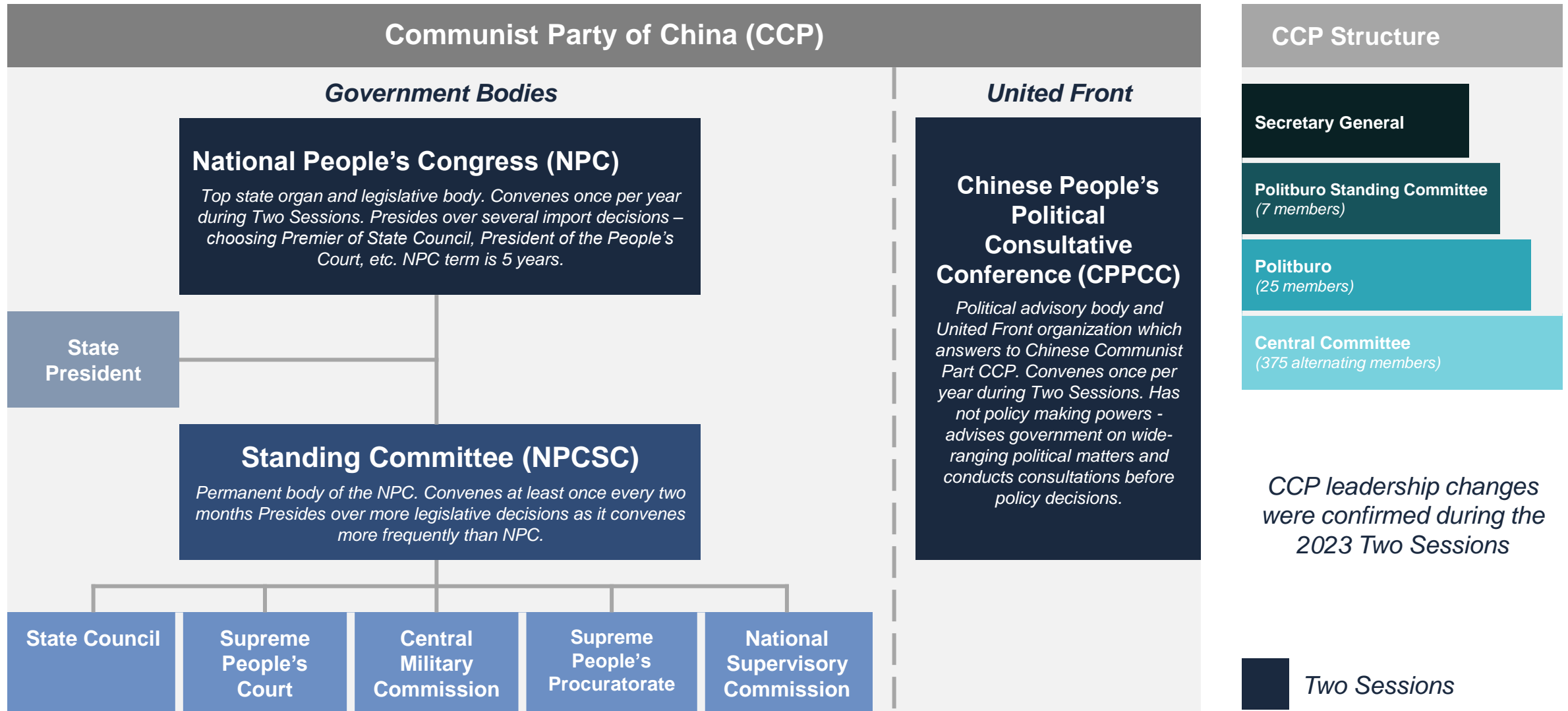
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What Are The Two Sessions

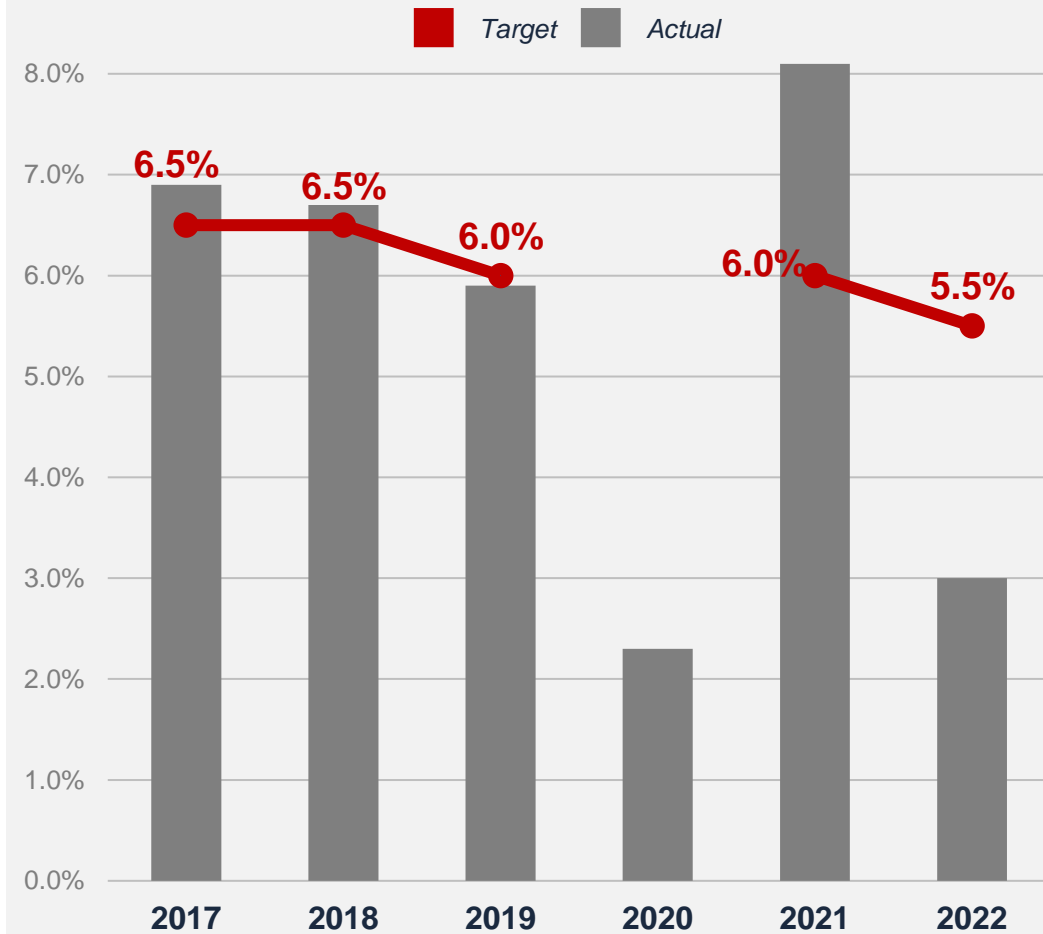


Background *recent political events*

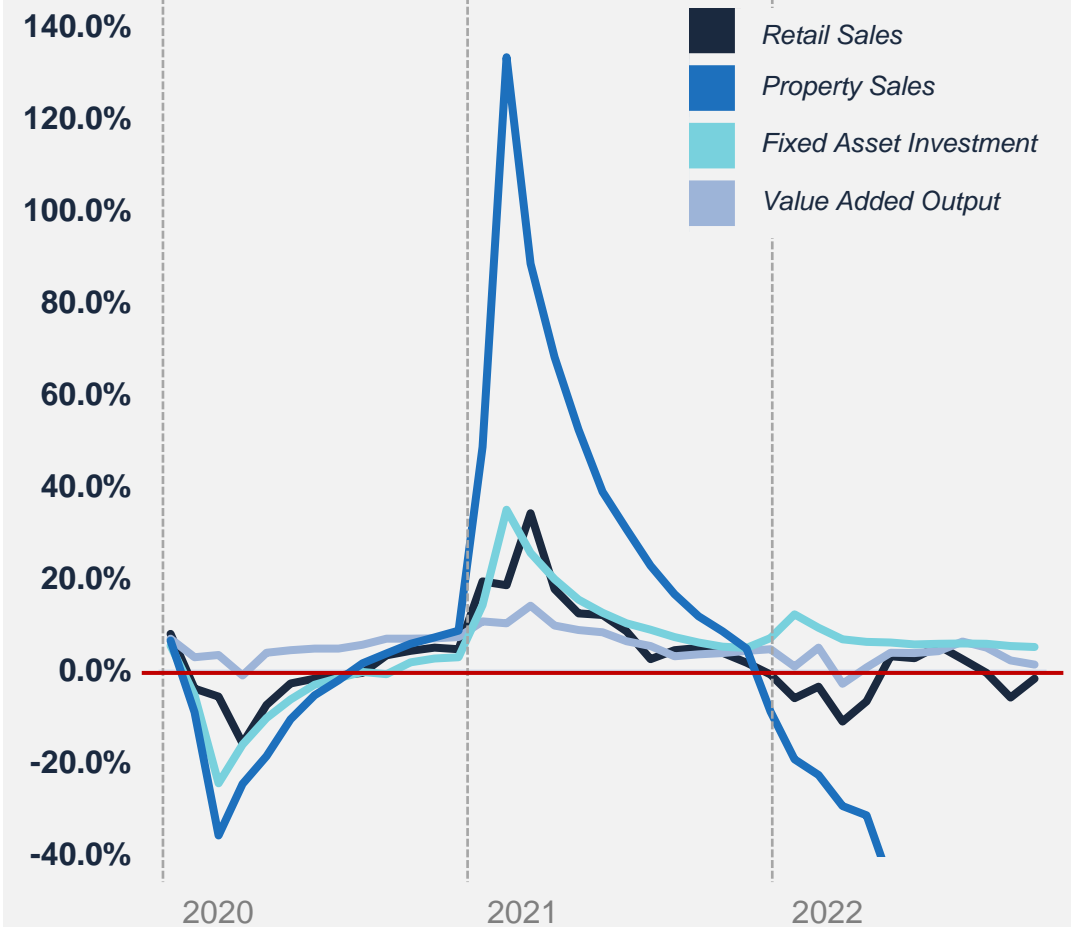


Economic Impact of Lockdowns *domestic economy*

China GDP Target v Actual



Domestic Economy (y/y % change)



State Council *appointed 2023*

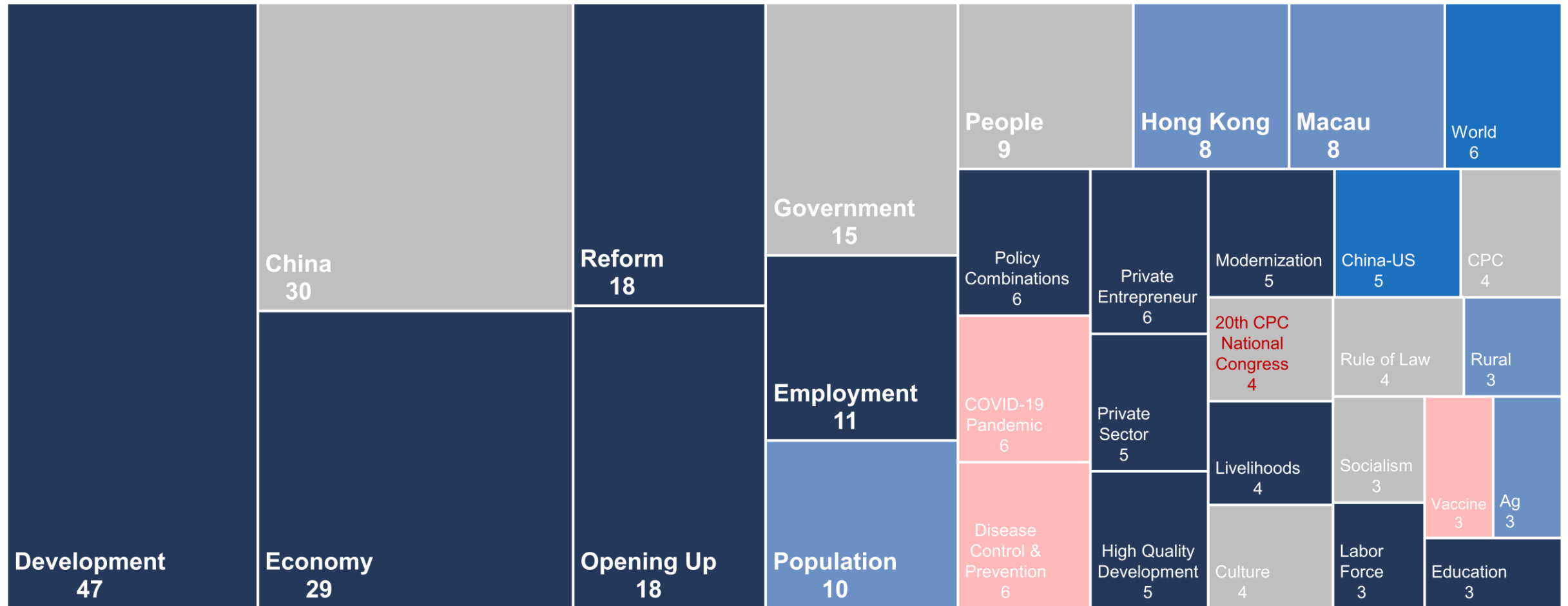
Premier						Vice Premiers					State Councilors				
															
Li Qiang 李强						Ding Xuexiang 丁薛祥	He Lifeng 何立峰	Zhang Guoqing 张国清	Liu Guozhong 刘国中		Li Shangfu 李尚福	Wang Xiaohong 王小洪	Wu Zhenglong 吴政隆	Qin Gang 秦刚	Shen Yiqin 谌贻琴
Age						64	61	68	59	61	65	66	59	57	65
Leadership Post						Premier	Executive Vice Premier	Vice Premier	Vice Premier	Vice Premier	State Councilor & Defense Minister	State Councilor & Public Security Minister	State Councilor & Secretary General	State Councilor & Foreign Minister	State Councilor
Provincial Experience						Zhejiang Jiangsu Shanghai	Shanghai	Fujian Tianjin	Chongqing Tianjin Liaoning	Heilongjiang Sichuan Jilin Shanxi	~	Fujian Henan Beijing	Chongqing Shanxi Jiangsu	~	Guizhou



Ministry / Commission	Minister	Age	Ministry / Commission	Minister	Age	Ministry / Commission	Minister	Age
Ministry of Agriculture & Rural Affairs	Tang Renjian 唐仁健	61	Ministry of Finance	Liu Kun 刘昆	67	Ministry of State Security	Chen Yixin 陈一新	64
Ministry of Civil Affairs	Tang Dengjie 唐登杰	59	Ministry of Foreign Affairs	Qin Gang 秦刚	57	Ministry of Transport	Li Xiaopeng 李小鹏	64
Ministry of Commerce	Wang Wentao 王文涛	59	Ministry of Housing & Urban-Rural Development	Ni Hong 倪虹	61	Ministry of Veterans Affairs	Pei Jinjia 裴金佳	60
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			Ministry of Science & Technology	Wang Zhigang 王志刚	66	State Ethnic Affairs Commission	Pan Yue 潘岳	63



Premier Li Qiang's Speech *analysis*



Economic Policies

Promote high-quality growth

Deep reform and opening up

Stabilize growth

Around 5% economic growth

Stimulate demand

Support private business

People's Livelihoods

Employment

Employment 1st strategy

Employment of college graduates

Expand channels of employment

Population

Negative population growth

Abundant human resources

Talent dividend

Rural Revitalization

Highlight rural economic value

Guarantee food security

Deepen rural reform and development

Politics

New Government

Goals and priorities

20th CPC National Congress

People-centered

Government building

Institutional reform

Governance according to law

Hong Kong & Macau

One-country, two systems

International competitiveness

Cross-Strait Exchange & Development

One-China policy

1992 Consensus

Normal exchange and cooperation

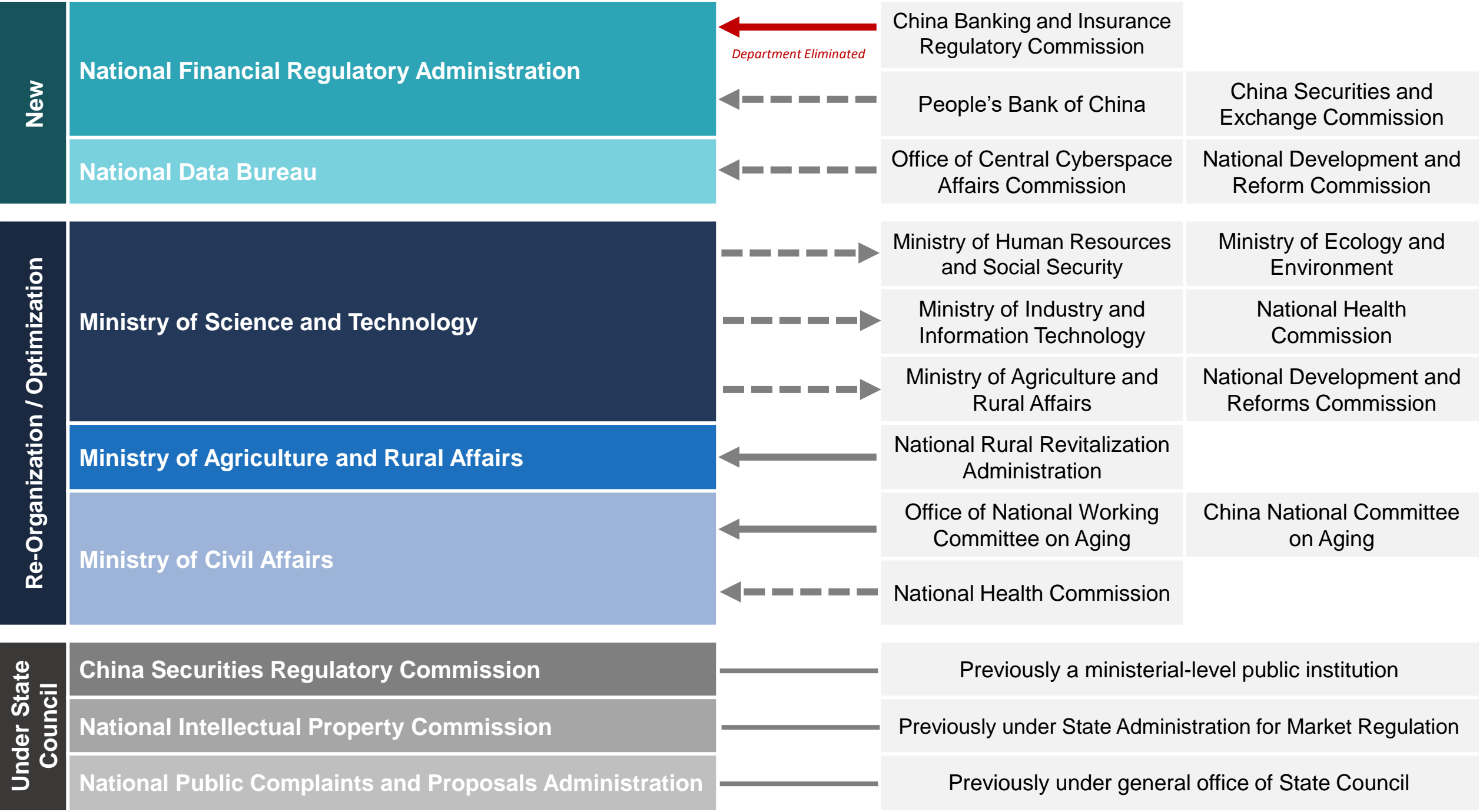
China-US Relations

China-US trade

China-US cooperation



	New Organs	Hierarchical Changes	Re-Organization	Optimization
Finance	National Financial Regulatory Administration Integrating CBIRRC, set up to strengthen regulation of the financial industry	China Securities Regulatory Commission Elevated to institution directly under the State Council	Central Financial Regulators Integrate local regulators People’s Bank of China Overhaul of regional branches	Financial Regulators Not to manage finance SOE anymore Staff for Financial Regulation Regulated as civil servants
Data	National Data Bureau Setup up under NDRC to centralize development of data resources and data economy			
S&T			Ministry of Science & Technology Restructured for enhanced driving role in innovation value-chain, new oversight committees in Party	
IP Protection		China National Intellectual Property Administration Leaves SAMR and is elevated to institution directly under State Council		
Agriculture				Ministry of Agriculture & Rural Affairs Integrates National Rural Revitalization Bureau
Social Affairs		National Public Complaints & Proposals Administration Elevated to institution directly under state council		Ministry of Civil Affairs Integrates Office of National Working Committee on Aging



Government Restructuring *outcomes*

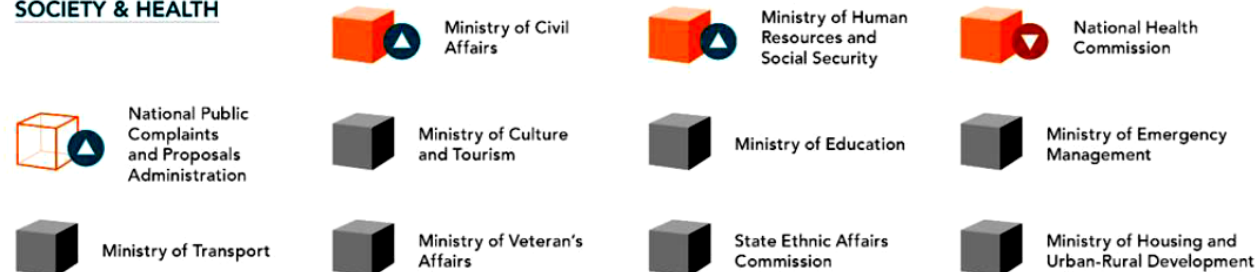
ECONOMICS & FINANCE



TECHNOLOGY & INNOVATION



SOCIETY & HEALTH



ENVIRONMENT & RESOURCES



LAW & ORDER



SECURITY & FOREIGN AFFAIRS



■ Restructured
 ■ New
 ■ No change
 |
 ▲ Gained power
 ▼ Lost power
 |
 ■ Ministry
 ◻ Affiliated Org

Key Economic & Business Takeaways



Headline Targets *from Government Work Report*



≈ 5%
GDP growth rate

3%
budget deficit-to-GDP ratio



≈ 5.5%
Urban unemployment rate

≈ 12 million
new urban jobs

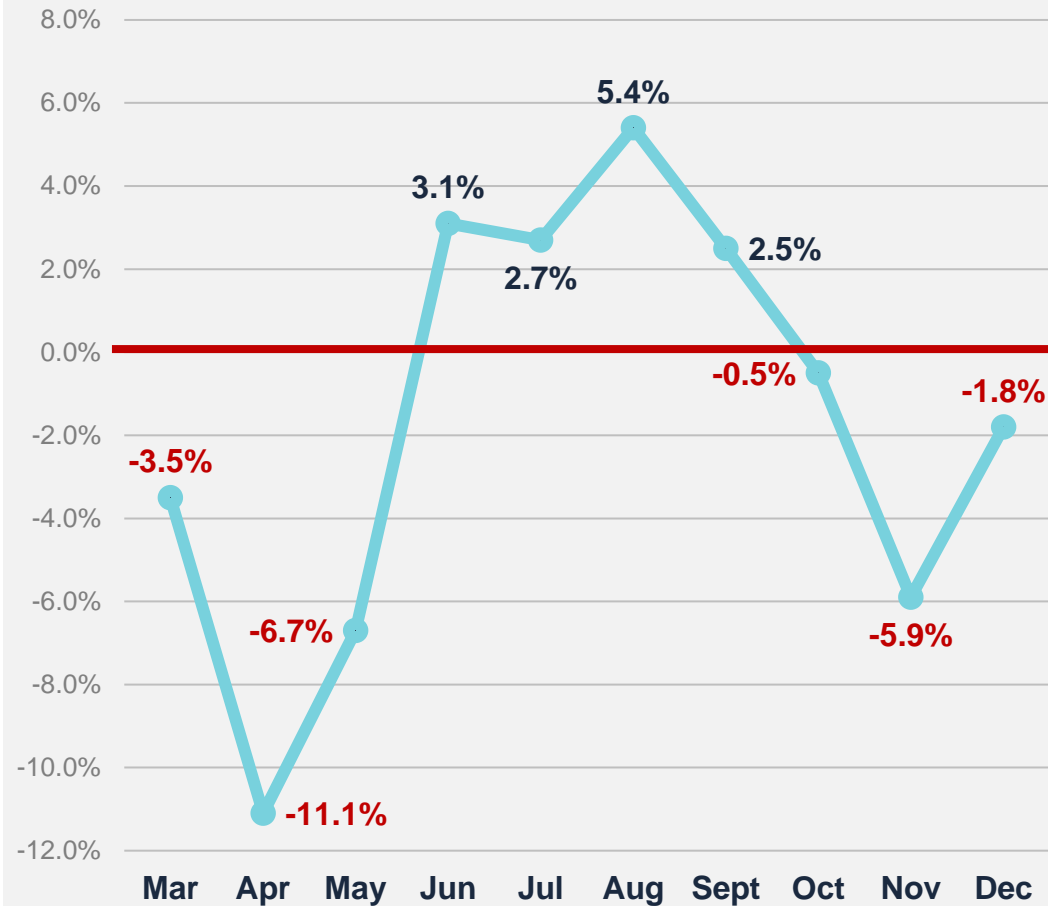


≈ 3%
CPI increase

> 650 million
Metric tons of grain output

Domestic Demand & Investment

Retail Sales of Consumer Goods *(y/y growth rate, 2022)*



Demand & Investment Policies

- Stimulate domestic demand by increasing investment in industries and society as a whole, rather than implementing specific consumption-stimulating policies as the past
- “Government investment and policy incentives must effectively drive investment in whole society” – calls for “increasing income of urban and rural residents through multiple channels”
- Set new quota for issuance of local government special purpose bonds (SPBs)
 - 2023 quota has been set at RMB 3.8 trillion a slight increase from RMB 3.65 trillion quota set in 2022
 - SPBs will be allocated to “accelerate the implementation of major projects during the 14th Five-Year Plan” period [from 2021 to 2025] and implement urban renewal activity”.
- Encourages participation of more private capital in major construction projects

Priorities *mentioned in & benefitting from policies introduced during Two Sessions*

Tax

- Did not announce any specific tax measures – only promised that
 - “China will improve preferential policies on taxes and fees, extend existing measures such as tax cuts, tax rebates, and tax deferments that should be extended, and optimize existing measures that should be optimized”.
- Expect that Ministry of Finance (MOF) and State Taxation Administration (STA) will provide more information on these extensions and optimizations in the coming months.
- Potential policies to be extended include
 - **Vulnerable Sectors:** small and micro enterprises, individual businesses, lifestyle services industry, delivery services, and other vulnerable sectors still face challenges – support measures introduced for these industries in past three years are likely to be extended in 2023
 - **Super Deduction:** super deduction policy for enterprises entitled to current additional pre-tax deduction ratio of 75% for R&D expenses – during period from Oct. 1 to Dec. 31, 2022, ratio was raised to 100%
 - **High and New Technology Enterprises (HNTes):** one-off pre-tax deduction policy for HNTes for equipment and instruments (non-housing/building fixed assets) newly purchased during period from Oct. 1 to Dec. 31, 2022 – during this period, deductions were allowed to be 100 percent weighted
- Government will also be considering the balance of payments, after spending billions on pandemic control in the past few years.
- In January 2023, MOF and the SAT optimized some VAT incentives for a range of market entities, including small-scale taxpayers and taxpayers in production and lifestyle service industries

Tax Reductions & Incentives *example*

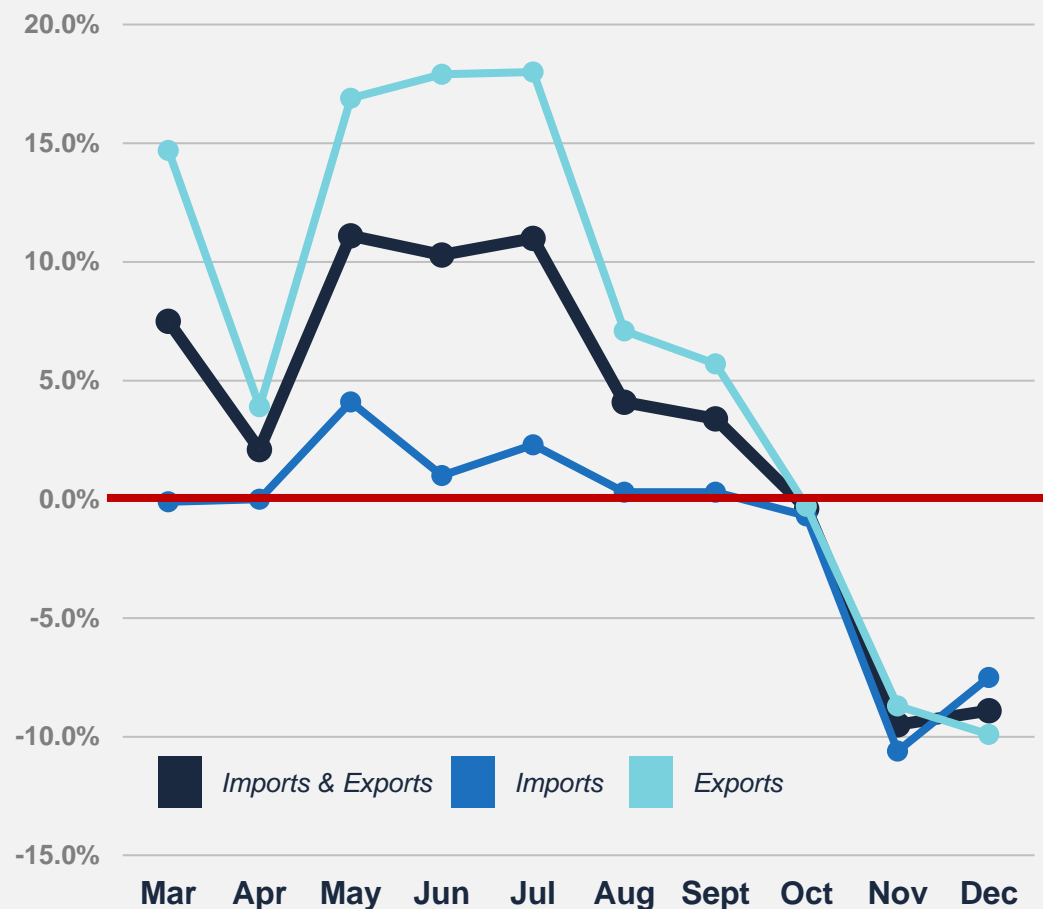
Corporate Income Tax Cuts for Small and Low-Profit Enterprises (SLPEs)				
Annual Taxable Income (ATI)	Tax Base	CIT Rate	Effective CIT Rate	Effective Period
Portion Below RMB 1 million	ATI * 12.5%	20%	2.5%	Jan. 1, 2021 – Dec. 31, 2022
Portion Between RMB 1 million and RMB 3 million	ATI * 25%	20%	5%	Jan. 1, 2022 – Dec. 3, 2024

NOTES:

1. CIT = Corporate Income Tax
2. SLPEs refer to enterprises engaged in non-restrictive and non-prohibited businesses that meet the following three conditions:
 - Annual taxable income not exceeding RMB 3 million (approx. US\$458,500)
 - Number of employees not exceeding 300; and
 - Total asset value not exceeding RMB 50 million (approx. US\$7.7 million).

Foreign Trade & Investment

Imports and Exports (y/y growth rate, 2022)



Foreign Trade & Investment Policies

- Calls for attracting and utilizing more foreign capital in 2023
- Will “expand market access and increase the opening-up of modern service industry” to do so
- The GWR also calls for implementing “national treatment” of foreign companies, which means ensuring that foreign companies are treated equally to domestic companies, and calls for promoting the construction of “landmark foreign-funded projects”
- Promote China’s accession to economic and trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Priorities *mentioned in & benefitting from policies introduced during Two Sessions*

Financial Risk

- Effectively preventing and defusing major economic and financial risks” and outlines a few key areas of focus, these include:
 - Mitigating the risks of real estate industry
 - Growing local government debt
- Did not provide specifics on how to resolve current issues in real estate, but calls for “improving status of assets and liabilities, preventing disorderly expansion, and promoting stable development of real estate industry”
- Rising local government debt – and especially the so-called “hidden debt” held by local government financing vehicles (LGFVs) – has been a major concern for central government for many years, there were no updates on this
- Ongoing liquidity crunch among local governments could also stymie efforts to boost economy through investment in infrastructure projects – over the past few years, government has taken aim at reducing local government debt through mechanisms such as enabling local governments to swap their debt for the SPB quotas
- Further actions to be taken in 2023 include optimizing debt maturity structure, reducing interest burden, curbing the increase of debt, and dissolving reserves

Sectors *mentioned in & benefitting from policies introduced during Two Sessions*

Green Transition

- No specific new policies for promoting green development released, only general goals / proposals:
 - “Strengthening construction of urban and rural environmental infrastructure, and continuing to implement major projects for protection and restoration of important ecosystems”
 - “Promoting the clean and efficient utilization of coal and technology R&D, and accelerating construction of a new energy system”
 - “Improving policies to support green development”

Healthcare

- Local governments will have much more bandwidth to focus on other (i.e. non-COVID) healthcare outcomes and address some lingering issues in the industry
- “Focusing on healthcare protection and severe disease prevention” as well as focusing “on basic health care for the elderly, children and patients”
- Further work to be done on vaccines and drugs, including “promoting the iterative upgrading of vaccines and development of new drugs, effectively guaranteeing needs of the masses for medical treatment, and protecting people’s safety and health”

Key Priorities & Takeaways *summary*



**Pro-Business Environment &
Opening to Foreign Investment**



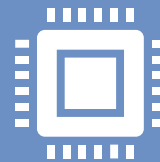
**Increasing Consumption &
Domestic Growth**



**Revising Financial Regulation &
Containing Financial Risk**



Continued US-China Tensions



Tech Security & Self Sufficiency



Reconciliation with Europe



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