

# *The Chinese leadership gets ready to implement its grand plan for 2018 and beyond*





The year of 2018 marks the 40th anniversary of China's reform and opening-up drive. It also denotes the initial year of fully implementing the guidelines and spirit of the 19th Party Congress, and a crucial year of building a “moderately prosperous society” by 2020 as stipulated in the 13th Five-Year Plan.

Following the successful conclusion of the 19th National Congress of the ruling Communist Party of China (CPC) last October, when the “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” was added to the Party’s Constitution, the first session of the 13th National People's Congress (NPC) and the first session of the 13th National Committee of the Chinese People's Political Consultative Conference (CPPCC) — referred as “Two Sessions” — just held in Beijing on 5-20 March 2018 strived to turn the blueprint laid out by President Xi at the Party Congress into action plan. During the Two Sessions, the CPC has outlined the government work plan for 2018, orchestrated the amendment to the country’s Constitution, managed the reshuffle of the Party and government organisations and appointed new heads of state and departments.

With a revised Constitution that helps clear all the institutional barriers along the way and an echelon of new leaders carefully selected by President Xi, China stands ready to embark on a long journey towards fulfilling “Chinese dream of national rejuvenation” and the long-term goal of building China into a great modern socialist country that is “prosperous, strong, democratic, culturally advanced, harmonious, and beautiful” by 2049.



## Government's work priorities for 2018

In the Government Work Report delivered to the National People's Congress, China's national legislature, Premier Li Keqiang said that in 2018 China would look to achieve GDP growth of around 6.5%, the same target for 2017. With an annual GDP growth rate of above 6.3%, China is expected to achieve its target of doubling its real GDP from 2010 level to turn the country into a moderately prosperous society by 2020.

To make this happen, China will pursue a proactive fiscal policy and a prudent monetary policy.

This year's deficit as a percentage of GDP is projected to be 2.6%, 0.4% lower than last year, with a total deficit of 2.38 trillion yuan.

In accordance with the spirit of the 19th Party Congress,<sup>1</sup> Premier Li's report focused on specific action plans for different sectors of the economy with the aim of putting the visions and principles of the 19th Party Congress into practice. Specifically he outlined the following nine key tasks for increased efforts in 2018.<sup>2</sup>



1. See PwC's commentary on the 19th Party Congress at <https://www.pwccn.com/en/research-and-insights/business-review-of-china-s-19th-party-congress.html>
2. Based on Premier Li's work report and the "Highlights of the Government Work Report" by China Daily, March 05, 2018 <http://usa.chinadaily.com.cn/a/201803/05/WS5a9cb2daa3106e7dcc13f93f.html>



## 1. Stepping up supply-side structural reform<sup>3</sup>

- Develop and strengthen new growth capabilities by applying big data development initiative, promoting the Internet Plus in healthcare, elderly care, education, culture and sports; abolishing domestic data roaming charges and cutting the rates for mobile internet services by at least 30% to promote the construction of Digital China.
- Increase manufacturing capability by promoting the development of integrated circuits, 5G mobile communications, aircraft engines, new-energy vehicles, and new materials; developing industrial Internet of Things platforms; creating Made in China 2025 demonstration zones.
- Continue cutting ineffective supply by reducing steel production capacity by 30 million tonnes and coal production by 150 million tonnes, and closing down the below-quality coal-fired power production under 300,000 kilowatts in 2018; stepping up bankruptcy restructuring of “zombie enterprises”.
- Deepen the reforms designed to delegate powers, improve regulation and provide better services by expanding nationwide negative list approach to market entry; removing barriers, cutting red tape, and building even pathways to optimise business environment.
- Reduce tax and non-tax burdens on businesses by slashing industrial taxes for manufacturing and transport; reducing business income taxes for small and micro-businesses; reducing toll charges of highways and roads; cutting the price of electricity for general industrial and commercial businesses by an average of 10%.



3. The supply-side structural reform refers to the promotion of economic structure adjustment, ratifying market distortions and expanding effective supplies in order to improve the resilience and flexibility of the economy to changes of market needs, enhance the total factor productivity and promote the sustainable development of the economy. In practice in China it means to cut industrial overcapacity, reduce excess inventory, deleverage, lower costs, and strengthen areas of weakness such as environmental protection and streamlining of regulations to improve business climate.

## ***2. Making China a leading country in innovation***

- Strengthen basic and application research by initiating major science and technology innovation projects; speeding up the commercialisation of research results; investing more into projects related to people's livelihood such as smog and cancer treatment.
- Improve innovation stimulus policies by giving more financial and decision-making powers to innovation team leaders and better remuneration to leading research persons; cutting off red tape and barriers to release vitality.
- Promote mass innovation by establishing pilot bases and encouraging sharing and collaborations between enterprises and research institutions; establishing a state financing guaranty fund; support leading innovative enterprises in going public; and extend nationwide the pilot preferential tax policies for venture capital investment and angel investment.

## ***3. Deepening reform in fundamental sectors***

- Promote reform of the state-owned enterprises (SOEs) by deepening reform of pilot state capital investment companies and state capital operation companies; pushing for SOE restructuring; increasing the competitiveness of their main businesses; encouraging state capital to become stronger, do better, and grow bigger; promoting mixed ownership, even with foreign companies.
- Support the development of the private sector by fully implementing relevant national policies and providing equal rights and opportunities; abolishing hidden barriers and improving entrepreneurs' participation in policy-making process; spurring entrepreneurship and enhancing business confidence.
- Improve property rights system and mechanisms for market-based allocation of the factors of production by tackling infringements and stepping up protection of intellectual property rights; breaking and preventing monopoly.
- Deepen the fiscal and tax reform by separating fiscal roles and responsibilities between the central and local governments; improving transfer payment; prudently starting the legislation process for real estate tax; reforming the personal income tax.
- Speed up financial system reform by expanding inclusive finance business; promoting multi-tier capital market reform and the bond and futures markets; deepening the market-oriented reform of the interest rate and exchange rate; maintaining stability of the exchange rate.
- Promote social reform and biological civilisation by reforming the pension system; reforming public hospitals to reduce cost and improve quality of services; implementing the system of compensation for environmental damages.

## ***4. Fighting three critical battles***

- Strive for notable progress in forestalling and defusing major financial risks by tightening supervision over shadow banking, Internet finance and financial holding companies; speeding up the legislation on debt to equity swap; strictly prohibiting illegal borrowing and guarantee by local governments.
- Step up poverty alleviation efforts by further reducing the poor rural population by over 10 million, and relocating 2.8 million people from inhospitable areas;
- encouraging poverty reduction through industrial, educational, healthcare the biological channels.
- Make greater progress in addressing pollution issues by cutting sulphur dioxide and nitrogen oxide emissions by 3% and achieving a continuous decline in PM2.5 density in key areas; raising the bar for pollutant emissions; promoting water and soil contamination treatment; strictly enforcing the new law to build a “Beautiful China”.

## ***5. Implementing rural revitalisation strategy***

- Advance agricultural supply-side structural reform by stepping up reform and innovation to build powerful new growth drivers for rural development; increasing the area of high-standard cropland by at least 5.33 million hectares; breeding new new-type enterprises; developing “the Internet plus agriculture”.
- Deepen agricultural reform by implementing the policy of extending second round rural land contracts by another 30 years upon their expiration; exploring the separation reform plan of the homestead ownership, the right of qualification and the right to use.
- Promote the full development of all programs in rural areas by improving the infrastructure for supplying water and power, information and so on, and building or upgrading 200,000 kilometres of rural roads; improving self-governance of villages.



## ***6. Promoting coordinated regional development strategy***

- Create new landscape in regional development by promoting coordinated growth between Beijing-Tianjin-Hebei, the construction of Xiong'an New Area, and the Yangtze River Economic Belt development; formulating development plans for Guangdong, Hong Kong and Macau Great Bay Area.
- Pursue better-quality new urbanisation by improving public transport; providing more convenience facilities and carrying out old village upgrading and lift fitting projects; registering another 13 million people as permanent urban residents.

## ***7. Increasing consumption and promoting effective investment***

- Strengthen the fundamental role of consumption in driving economic growth by promoting and developing new forms and models of consumption; extending the preferential auto-purchase tax policy for new energy vehicles for another three years; abolishing nationwide the second-hand car moving restrictions; reducing the ticket prices of major state-run parks.
- Enable investment to play the pivotal role in optimising the supply structure by investing 732 billion yuan this year in railway construction and around 1.8 trillion yuan in highway and waterway projects; the scale of investment in ongoing water conservancy projects will reach 1 trillion yuan; opening up attractive projects in railway, aviation, oil & gas, telecommunications sectors to private investment.





## ***8. Creating a new landscape in all-round opening up***

- Advance the Belt and Road Initiative through expanding international cooperation on industrial capacities that serve to promote China's Going Global for manufacturing and services sectors; optimising the structure of foreign investment; strengthening the opening up of the western, inland and border areas.
- Consolidate the growth in foreign trade through measures such as expanding the coverage of export credit insurance, and reducing time for customs clearance; actively expanding imports and running the first China International Import Expo; cutting down import tariffs on automobile and daily consumer goods.
- Promote trade and investment liberalisation and facilitation by remaining committed to economic liberalisation and free trade; promoting early conclusion of the negotiations on Regional Comprehensive Economic Partnership (RCEP) agreement; speeding up the construction of the Asia Pacific Free Trade Area and the East Asian economic community; opposing trade protectionism.

## ***9. Ensuring and improving people's wellbeing***

- Boost employment and business start-ups by providing all-round public services skills trainings; supporting job creation through business start-ups for the 8.2 million college students graduating this year; eradicating discriminations on gender and social status.
- Increase people's income by raising basic pension payments for retirees and basic pension benefits for rural and non-working urban residents; adjusting the level of minimum wages; raising the thresholds of collecting individual income tax.





- Implement the Healthy China strategy through raising the basic medical insurance and critical illness insurance benefits and expanding the coverage of interprovincial on-the-spot settlement of medical bills through basic insurance accounts, promoting the development of Traditional Chinese Medicine.
- Develop fair and high-quality education by implementing the integrated development of urban and rural compulsory education; reducing the dropout rates for rural students; stepping up the building of Double First-Class universities.
- Meet people's basic living needs through steadily raising urban and rural subsistence allowances, social assistance benefits, and benefits for entitled groups; improving social relief and aid system.




## ***Other important developments of the Two Sessions***

**Leading role of the Party** – Throughout the Two Sessions, a distinctive feature is that it has closely followed the principle of upholding and strengthening overall Party leadership. The 19th Party Congress clearly states that “The Party exercises overall leadership over all Party, government, military, and people’s organisations as well as academic bodies in every part of the country.” As the new amendment to the Constitution indicates,

“The leadership of the Communist Party of China is the defining feature of socialism with Chinese characteristics.” And all arrangements, including the reform of government institutions, serve the purpose of “improving the leadership system of the Party and the country, and safeguarding the authority of the CPC Central Committee as well as its centralised and unified leadership with Comrade Xi Jinping at the core.”<sup>4</sup>

4. Draft constitutional revision to ensure China’s prosperity, lasting security, Xinhua, 2018-03-08, [http://www.xinhuanet.com/english/2018-03/08/c\\_137022929.htm](http://www.xinhuanet.com/english/2018-03/08/c_137022929.htm)



**Amendments to the Constitution** — Upon the request of the CPC Central Committee, the first session of the 13th National People’s Congress adopted the 21 amendments to the Constitution on 11 March 2018. The purpose is to “keep the Constitution with the times” by incorporating new achievements, experiences and requirements of the Party and the country over the past five years. Among the main changes, the role of the Party was enshrined, the term limits of the state chairmanship were deleted and a National Supervisory Commission was established.

**Reform of government institutions** — In order to optimise the settings of government bodies and deployment of their functions in order to strengthen the government's functions on economic management, market supervision, social management, public service, and ecological and environmental protection, the NPC adopted an institutional restructuring plan so as to make the government better-structured, more efficient, and service-oriented. The reform also serves the purpose of removing institutional obstacles to make the market play a decisive role in resource allocation, and help China build a modern economy with high quality growth.<sup>5</sup> All these changes will have a significant impact on improving the business environment in China.

After the restructuring, the State Council will be composed of 26 ministries and commissions. Compared with the current cabinet setup, the number of ministerial-level agencies is reduced by eight and that of vice-ministerial-level agencies by seven (see Appendix for details).

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5. China unveils major cabinet reshuffle, Xinhua, 2018-03-13, [http://www.xinhuanet.com/english/2018-03/13/c\\_137036361.htm](http://www.xinhuanet.com/english/2018-03/13/c_137036361.htm)

- **Election of state leaders and senior ministers** — The NPC sessions elected a new line-up of the state leaders. Xi Jinping was re-elected Chinese President and Chairman of the Central Military Commission (CMC) of the People's Republic of China by a unanimous vote. Li Keqiang was re-endorsed as the Premier of the State Council. Han Zheng was appointed the Executive Vice Premier, and Madam Sun Chunlan, Hu Chunhua and Liu He were appointed Vice Premiers.

It is believed that the appointment of Han Zheng will enable him to leverage his strong economic background and international experience to assist Premier Li in promoting economic globalisation and international collaborations, in particular on the Belt and Road Initiative and the building of free-trade zones. Liu He, President Xi's trusted economic advisor is expected to take up the tough challenges of dealing with the US on an imminent trade war, as well as furthering China's supply-side structural reform.



## ***How your business will be affected***

**Be ready to deal with the Party** — Since the Party is going play a leading role in all walks of life, one is likely to see more visible presence of the Party in daily life of business. This may include the set-up and hosting of activities of the Party branches in your company (no matter if it's a foreign company or a domestic firm), meeting with your clients who are headed by their Party cadres, particularly the SOE clients, and awaiting for Party approval from your client side on a transaction deal you are handling. A better understanding about how the Party operates will be instrumental in maintaining a realistic strategy and a robust business.

**Prepare for a more assertive China** — As the Chinese economy further expands, China has become much more confident and assertive in making its claims. As clearly explained in the 19th Party Congress report,<sup>6</sup> China has shown its willingness to share its growth experiences – the China Solutions - with other countries, in particular developing countries along the Belt & Road, as an alternative to the traditionally Western-led political and economic models of governance.

China's increasing assertiveness has alerted the West where the US has listed China as a rival in its latest National Security Strategy Report. Germany's former Foreign Minister Sigmar Gabriel

6. ".....This is what socialism with Chinese characteristics entering a new era means: The Chinese nation, which since modern times began had endured so much for so long, has achieved a tremendous transformation – it has stood up, grown rich, and become strong; and it now embraces the brilliant prospects of rejuvenation. It means that scientific socialism is full of vitality in the 21st century China, and that the banner of socialism with Chinese characteristics is now flying high and proud for all to see. It means the path, the theory, the system, and the culture of socialism with Chinese characteristics have kept developing, blazing a new trail for other developing countries to achieve modernisation. It offers a new option for other countries and nations who want to speed up their development while preserving their independence; and it offers Chinese wisdom and a Chinese approach to solving problems facing mankind. (The new era) will be an era that sees China moving closer to centre stage and making greater contributions to mankind - Delivered by Xi Jinping at the 19th National Congress of the Communist Party of China, October 18, 2017



also warned China to not “attempt to divide Europe” by investing into Central and Eastern European countries”.<sup>7</sup>

For businesses, it means there could be more trade and investment frictions between China and its Western trading partners, including a trade war with the US that looks imminent. Businesses will need to factor these risks and uncertainties into their strategy development.

**Bolder reform and opening up measures** — In line with the 19th Party Congress report issued last October, Premier Li committed to undertaking bolder reform and opening up, calling it “a game-changing move” that makes China what it is today. He outlined many detailed measures on liberalisation and opening up represented by the nine key tasks for 2018 in his report. Foreign companies are supposed to enjoy much better treatment going forward (see Task 8. Creating a new landscape in all-round opening up in Premier Li’s report for details).

Furthermore, he has vowed to improve the business environment, level the playing field, cut costs and better protect intellectual property rights for the private sector, which contributes 60% of China’s GDP growth, half of its fiscal revenue, 60% of fixed investment, 80% of jobs and 70% of innovations, according to the All-China Federation of Industry and Commerce.<sup>8</sup>

While all these measures are positive developments in the right direction, the government still needs to do more to ensure full implementation of its commitments. The European Chamber of Commerce in China has called the Chinese government in its European Business in China – Position Paper 2017/2018

to “follow through on the public commitments it has made to economic globalisation and openness”, in particular the State Council Document No. 39<sup>9</sup>. The same thing is happening in the private sector. The government issued two documents in 2005 and 2010 respectively on promoting the development of the private sector (Articles 36 and New Articles 36), and yet most of those measures have not materialised for various reasons.

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9. European Chamber calls on China to demonstrate its commitment to economic globalisation and openness, European Chamber of Commerce in China, 2017-09-19, [http://www.europeanchamber.com.cn/en/press-releases/2579/european\\_chamber\\_calls\\_on\\_china\\_to\\_demonstrate\\_its\\_commitment\\_to\\_economic\\_globalisation\\_and\\_openness](http://www.europeanchamber.com.cn/en/press-releases/2579/european_chamber_calls_on_china_to_demonstrate_its_commitment_to_economic_globalisation_and_openness)



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7. German Foreign Minister says European unity key to future, The Seattle Times, Aug 30, 2018 <https://www.seattletimes.com/nation-world/german-foreign-minister-says-european-unity-key-to-future/>

8. China’s private sector contributes greatly to economic growth: federation leader, Xinhua, 2018-03-06 [http://www.xinhuanet.com/english/2018-03/06/c\\_137020127.htm](http://www.xinhuanet.com/english/2018-03/06/c_137020127.htm)



**Reap the benefits of China's consumer market** — Consumption has become a major driver of economic growth, contributing to 58.5% of China's GDP growth in 2017. According to UN statistics, China now ranks the world's 2nd largest consumption market only after the US. Accenture predicted in 2016 that China's middle class population could reach 70% of the total population by 2030, making China the world's largest consumer market.<sup>10</sup>

Premier Li stressed in his report that China would take practical steps to rigorously promote consumption, both online or offline. In addition, in order to deepen economic globalisation and reduce tensions with China's major trading partners over trade surplus issue, the first China International Import Expo will be held in Shanghai from 5-10 November 2018, following the announcement by Chinese President Xi in May 2017. The expo will include exhibitions and forums, providing a new platform for China to significantly increase its imports of goods and services from foreign countries.

**Great investment opportunities in the digital economy** — Digital economy is booming in China, and is reshaping the country's economic landscape as technologies like big data and artificial intelligence (AI) provide new growth impetus. It has also become part of the government's vision of an economy driven by innovation. For this purpose, the government has rolled out an array of policies such as "Made in China 2025" and "Internet Plus" strategies to spur the integration of Internet technologies and manufacturing. In July 2017, the State Council issued a plan to make the AI industry a major new growth engine by 2020, and make China a major centre for AI innovation and to lead the world in AI by 2030.<sup>11</sup>

In 2017, China's digital economy reached 26 trillion yuan, accounting for around 32% of national GDP, according to the China Academy of Information and Communications Technology. It is expected that the value of China's digital economy will grow to US\$16 trillion by 2035. Meanwhile, China is the world's largest e-commerce market, accounting for more than 40% of the value of worldwide transactions.<sup>12</sup>

**New opportunities in the healthcare market** — The "Healthy China" strategy aims to achieve the goal of "for-all health through collective construction and sharing" in the next 15 years. During the Two Sessions, a National Health Commission was established by combining the functions of the former National Health and Family Planning Commission, Office for the Lead Group of Deepening Healthcare System Reform and three other agencies. It can be expected that the new agency will lead efforts in improving the system of tiered medical services and medical insurance leverage, while applying the AI and Big Data technologies, promoting precision medical treatment and establishing digital medical couplet, creating enormous business opportunities along the way.

China's private hospitals will also see more growth opportunities. According to the Bluebook on China's Private Hospitals 2016, there were 14,500 private hospitals, accounting for 52.6% of total hospitals in China. Premier Li pledged in his government work report to set up closely-linked Medical Alliances across the country to solve the "difficult medical treatment, expensive medical treatment" problems. This will open up new investment opportunities.

10. 中国中产阶级财富达7.34万亿美元 2016年中产阶级最新标准, 2016-05-18, <http://news.cngold.com.cn/20160518d1903n70484692.html>

11. China to publish guideline on AI development: Minister, Xinhua, 2018-03-10 [http://www.xinhuanet.com/english/2018-03/10/c\\_137029724.htm](http://www.xinhuanet.com/english/2018-03/10/c_137029724.htm)

12. Xinhua Headlines: China's digital economy on the rise: new engine, new opportunities, Xinhua, 2018-03-01 [http://www.xinhuanet.com/english/2018-03/01/c\\_137009083.htm?client=1](http://www.xinhuanet.com/english/2018-03/01/c_137009083.htm?client=1)

### **Invest into high-value-added industries —**

When attending a panel discussion with the deputies from Inner Mongolia Autonomous Region at the NPC sessions on 5 March 2018, President Xi pointed out that local governments should build on their strengths to develop more emerging, high-end, high-value-added and capital-and-technology-intensive industries. He also called on the region to develop modern equipment manufacturing, modern services and other emerging sectors like new material, biomedicine, electronics and information, energy conservation, and environmental protection to lend fresh growth momentum.<sup>13</sup>

To put Xi's decrees into practice, it can be expected that Chinese local governments will follow up with more investment into these areas. The same logic applies to other regions as well as they endeavour to upgrade their industrial capacity, their own IT and modern services industry.

### **Wider access to the financial markets**

— In the report delivered to the NPC session, Premier Li said that China has determined to fully open up the general manufacturing sector and allow foreign investors to have wider access to sectors like telecommunications, medical services, education, elderly care and new energy vehicles. It will open up asset and wealth management sector and ease or lift restrictions on the share of foreign-owned equity in sectors such as banking, securities, fund management, futures and financial asset management. It will also grant foreign investors tax deferral for the reinvestment of profit made in China, while enhancing alignment with international business rules.

These new commitments resonate with China's earlier pledge of increasing market access and gradual reduction or even complete removal of restrictions on the percentage of shares held by foreign banks. This for sure will provide more lucrative business opportunities for foreign investors.

### **Focus on the Belt & Road Initiative**

— The Belt & Road will continue to be the focus of China's overseas investment and foreign aid. In 2017, the value of China's imports and exports with the region increased by 14.8% year-on-year to US\$1.1 trillion, and the stock Chinese investment has reached US\$60 billion. As Premier Li elaborated in his government work report, China will further expand international cooperation on industrial capacity and promote the drive of Going Global for Chinese manufacturing products and services.

Meanwhile it's worth noting that the B&R has also encountered some challenges, including doubts on issues like the financial viability of projects, the hosting countries' ability to repay debts, lack of transparency, and claims that Chinese nationals were usurping local jobs<sup>14</sup>. According to Zhong Shan, Minister of Commerce during the Two Sessions, China is going to create new platforms for international cooperation, a batch of successful pilot projects, and promote the development of "Silk Road E-Commerce"<sup>15</sup>. This implies that companies will need to actively pursue new project opportunities while ensuring there is proper risk management system in place to minimise the downside risks.

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13. President Xi stresses focus of developing high-quality economy, Xinhua, 2018-03-06, <http://www.scio.gov.cn/32618/Document/1624642/1624642.htm>

14. Disappeared Chinese engineer holds ties with Pakistan hostage, By James M. Dorsey, Jan 27, 2018 <http://www.scmp.com/week-asia/geopolitics/article/2130795/disappeared-chinese-engineer-holds-ties-pakistan-hostage>

15. 钟山：“一带一路”已经得到140多个国家和地区积极响应，中国网 2018-03-11, <http://politics.caijing.com.cn/20180311/4416094.shtml>

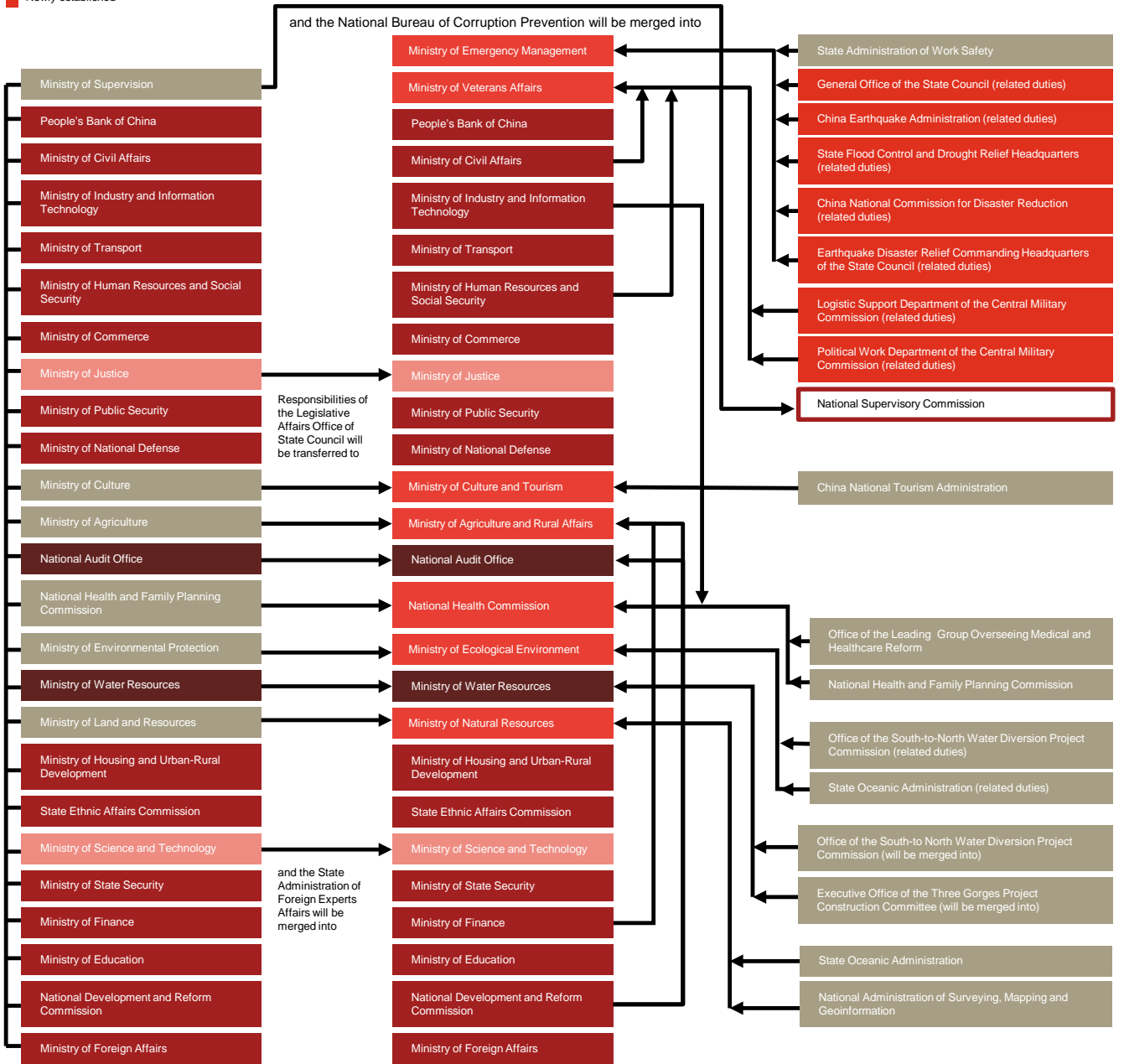
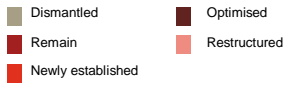
## ***Conclusions***

Overall, China's commitments of pursuing supply-side reforms, opening up more sectors for participation of foreign and local private companies, lowering the cost of doing business, spurring innovation and improving the livelihood of the people are encouraging news for the business community. The results of the Two Sessions, including a leaner and more efficient government, will help enhance political stability, improve commercial predictability and raise people's confidence in doing business in China, as the country marches on its long journey to build it into a great modern socialist country by the middle of the 21st century as laid out in the 19th Party Congress and the Two Sessions.





# Appendix: Restructuring of the State Council



Special thanks to Frank Lyn, Thomas Leung and Sanjukta Mukherjee for contributions to the report





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