

SPECIAL REPORT

THE 2022 TWO SESSIONS

Steadying the Ship
and Navigating
Uncertainties

MARCH 2022

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worldwide®





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FOREWORD

China's annual "Two Sessions" legislative meetings outlined cautious policies focused on continuity and stability for 2022 as Communist Party leaders seek a smooth path toward the 20th Party Congress this fall.

The plan is for a 2022 growth target of 5.5% to be fueled by tax cuts, improved access to financing for small and medium enterprises and attracting more foreign direct investment. The planners did acknowledge that the economy faces the "triple pressures" of shrinking demand, disrupted supply chains and weakening expectations.

But the real pressure facing China's leadership in 2022 will be sorting through the aftermath of the geopolitical earthquake triggered by Russia's invasion of Ukraine. The invasion came just three weeks after China and Russia signed a wide ranging 5,000-word joint agreement laying out "new inter-state relations" that are "superior to political and military alliances of the Cold War era." China's greatest challenge will be finding ways to maintain the stability and continuity of the country's economic and political relations with the world.

The document has extensive constructive language pledging support for such initiatives as World Trade Organization reform, the Paris climate agreement, nuclear non-proliferation, eliminating chemical weapons and developing the governance of AI. But it also portrays a China-Russia partnership that is a united front against the United States, Europe, Japan, their allied states and such associated security structures as NATO and AUKUS (the Australia, UK, United States trilateral security partnership).

As a result, as much of the world mobilizes to punish and isolate Russia, discussions of China's new partnership with Russia are focusing on such phrases in the agreement as "friendship between the two states has no limits" and "there are no forbidden areas of cooperation." China is now left in the uncomfortable position of shaping and explaining its relationship with Russia in a way that prevents some of the anti-Russia sanctions also being applied to China.

So far, China appears to be seeking a middle ground, calling for a ceasefire and peace talks that lead to Russia and Europe establishing a "sustainable European security network." Amid reports that China is moving toward supporting Russia financially, Foreign Minister Wang Yi is telling foreign dignitaries that "China is not a party to the crisis, still less wants to be affected by the sanctions." Analysts say that the tight Xi-Putin personal relationship and their long-term shared goal of ending American and European global predominance remains paramount.

What does this mean for foreign businesses in China? It means that your unknowns will outnumber your knowns this year. Will there be repercussions in China for businesses that pulled out of Russia? Will there be increased restrictions on doing business in China from the U.S. and European governments? Multinationals will have to closely monitor politics and geopolitical pressures while keeping their business plans flexible and developing an ability to pivot quickly when needed.



James McGregor
Chairman, Greater China

A handwritten signature in white ink that reads "James McGregor". The signature is stylized and cursive.



WHAT MULTATIONALS NEED TO KNOW

- 1 Economic Stability Is the Main Priority for 2022.** Domestic economic and social challenges, as well as a turbulent external environment, mean China will focus on economic stabilization measures in the coming year. These will include relief policies for MSMEs, measures to stimulate consumer spending and innovative financial controls to prevent systematic risks.
- 2 The Government Set an Ambitious Growth Target in Spite of Headwinds.** Having achieved 8.1% economic growth in 2021, the government aims to expand GDP by “around 5.5%” this year. It acknowledged that meeting this target “will require arduous effort,” as it sits at the high end of market expectations.
- 3 Indigenous Innovation, Digitalization and Decarbonization Remain Long-Term Commitments.** In line with the priorities of the 14th Five-Year Plan (2021-2025), China will strive to achieve breakthroughs in core technologies, support its digital economy and transition to a sustainable high-quality development model. In a break with previous years, however, the government avoided setting an energy intensity target, signaling a shift to more flexible and pragmatic decarbonization policies.
- 4 Despite Core Tensions, the Door Remains Open for United States-China Cooperation.** Alongside the standard divergence on issues including human rights and Taiwan, in his annual foreign policy speech, Foreign Minister Wang Yi invited the United States to “set out on a new journey” and focus on areas of cooperation.
- 5 Stringent COVID-19 Controls Will Stay for Now.** Ongoing sporadic COVID-19 outbreaks mean there will be no significant departure from the present “dynamic zero” strategy. The possibility of small adjustments later in 2022 remains.

MEETING OVERVIEW

The annual meetings of the Chinese People's Political Consultative Conference (CPPCC) and the National People's Congress (NPC) — collectively known as the “Two Sessions” — took place between March 4 and March 11.

China is confronted with a series of complex challenges in 2022, from sporadic local COVID-19 outbreaks to weak consumption growth and external tensions. The upcoming 20th Party Congress makes addressing these problems a matter of even greater urgency. As a result, stability emerged as the paramount priority for the government at this year's Two Sessions, with the Government Work Report and the speeches of senior legislators repeatedly underlining its importance.

The focus on stability did not forestall the return of an ambitious annual GDP growth target — set at about 5.5% — nor neglect other priorities, with increased stimulus measures expected to support the objectives of the 14th Five-Year Plan (2021-2025), including support for Micro, Small and Medium Enterprises (MSMEs). Praise for the “effective and quick” suppression of local COVID-19 outbreaks also reinforced expectations that China's stringent pandemic controls are unlikely to change in the near term.

The government emphasized its commitment to long-term reform initiatives, such as indigenous innovation and digitalization. China will also continue to implement policies aimed at achieving “common prosperity,” despite the fact that this year's government reports carried few direct references to the term. However, unlike last year, energy intensity will not be subject to a specific target but will instead be assessed with “appropriate flexibility,” though China's long-term climate goals remain unchanged.

Opportunities exist for companies that are able to demonstrate their ability to support the country's development goals and objectives. The 20th Party Congress later this year will provide further clarity on the country's development trajectory and the key priorities with which foreign businesses will need to align.



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While recognizing our achievements, we are also very clear about the problems and challenges before us.

— Li Keqiang,
2022 Government Work Report



2022 GOVERNMENT WORK REPORT Focusing on Immediate Challenges and Long-Term Objectives

China achieved 8.1% GDP growth in 2021, beating the official target of “above 6%.” But this year’s Government Work Report adopted a cautious outlook in the face of an increasingly “volatile, grave and uncertain” external environment, the “triple pressures” of shrinking demand, disrupted supply and weakening expectations, and resurgences of local COVID-19 cases. In 2022, the government will focus on stabilizing economic growth alongside its long-term priorities of technological innovation and self-sufficiency, decarbonization and effective control of the COVID-19 pandemic.

A Return to Growth-Oriented Economic Policymaking

The Government Work Report’s 2022 GDP growth target of “around 5.5%” is the lowest since 1991, despite it exceeding the 5.1% and 4.4% forecasts of the World Bank and IMF respectively. The report acknowledged that meeting it “will require arduous efforts,” and its ambition signals a departure from 2021’s relatively low and achievable objective which allowed for focus on key structural reforms.

Continued Support for Domestic Innovation

Reflecting the 14th Five-Year Plan, the Government Work Report re-emphasized the importance of high-quality development through industrial upgrading and innovation. China will continue to engage in international scientific and technological cooperation, while building up domestic capabilities to facilitate breakthroughs in core technologies and gradually reduce reliance on foreign sources of key industrial components. Establishing talent centers, innovation hubs, as well as developing a preferential corporate income tax for high-tech enterprises are among the instruments tapped to spur domestic innovation. In keeping with previous years’ work, the government will also continue to encourage the development of the digital economy, targeting digital infrastructure construction and improvements to digital economy governance.

Decarbonization Work Downplayed

In 2021, China suffered from a nationwide energy crisis, in part due to local governments racing to meet strict centrally mandated energy consumption and intensity goals. Influenced by these difficulties, the government did not set an annual target for energy intensity. Instead, it stressed the need for a degree of flexibility and pragmatism in assessing national decarbonization efforts. The omission of clear energy intensity goals signals the government will seek to better balance the negative economic impact within its efforts to achieve carbon neutrality by 2060.

Stringent COVID-19 Controls to Stay

The emergence of the more transmissible Omicron variant has increased the spread of outbreaks and local cases across China. Despite recognizing the adverse economic impact of its strict containment efforts, the government made no clear signal of a near-term transition away from its stringent “dynamic zero” COVID-19 strategy. However, the Government Work Report did indicate the possibility of slight adjustments, noting that the country must “constantly refine epidemic containment measures” to avoid negatively affecting residents’ lives. Following from this, on March 15, China’s National Health Commission updated its COVID-19 prevention and control guidelines, authorizing antigen tests as a supplement to nucleic acid tests, allowing patients with mild symptoms to be placed under quarantine instead of hospitalization, adding COVID-19 pills to the treatment plan and lowering the cycle threshold (Ct) value for nucleic acid tests.

Opportunities for Multinationals

The Government Work Report reaffirmed that trade, foreign investment and market opening remain crucial to China’s economic development. It outlined plans to improve services for promoting foreign investment and accelerate the launch of major foreign-funded projects. The government especially welcomes foreign investment in high-end manufacturing, R&D-intensive industries and modern services.

China’s long-term development goals — promoting high-quality development, strengthening domestic consumption, achieving carbon neutrality, reducing socio-economic and regional inequalities, and spurring domestic innovation — remain unchanged. Multinationals that can contribute to these objectives have clear growth potential in China.



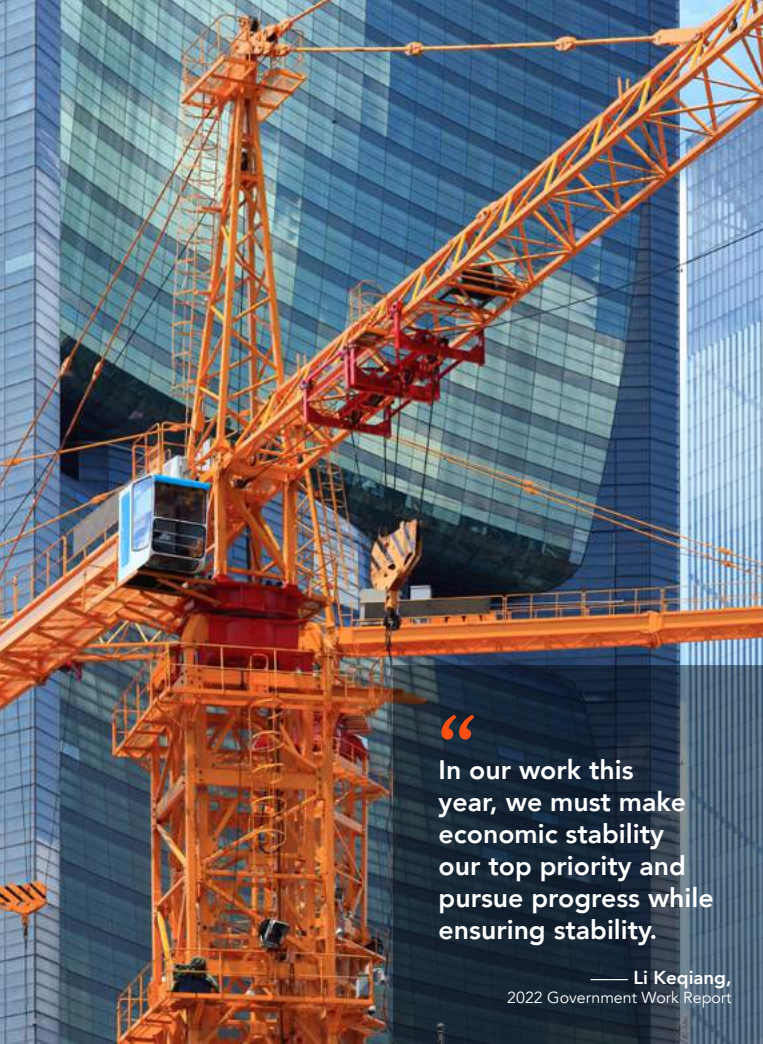
CHALLENGES

- Shrinking demand
- Disrupted supply
- Weakening expectations
- COVID-19
- Sluggish investment recovery
- Unsteady export growth
- Inadequate supply of energy resources and raw materials
- Financial risks

- Stable economic growth
- Employment
- Favorable business environment
- Innovation-driven development
- Domestic consumption
- Rural revitalization
- Growth in foreign trade and investment
- Low-carbon development



SOLUTIONS



“
In our work this
year, we must make
economic stability
our top priority and
pursue progress while
ensuring stability.”

— Li Keqiang,
2022 Government Work Report

ECONOMIC STABILITY: The Key Priority for 2022

Following the government's announcement that it will make economic stability its “top priority” this year, policymakers further outlined a broad range of supportive measures to achieve the higher-than-expected growth target of “around 5.5%.”

Delivering Employment Through MSME Support

In 2022, the government will place greater emphasis on employment and job security, pledging to create “preferably 13 million new urban jobs.” This emphasis signals enhanced relief policies for companies, particularly MSMEs, that account for around 80% of non-government jobs. The government further expects tax refunds and cuts to reach an unprecedented CNY 2.5 trillion (USD 394 billion), and will encourage banks to expand lending to MSMEs, lower interest rates and cut fees to improve financing accessibility and business confidence.

An urban employment target of “no more than 5.5%” was maintained without deviation from 2021. Policymakers vowed to expand employment channels, improve job stability by creating a favorable business environment and support business startups. Premier Li Keqiang emphasized that priority will be given to COVID-hit sectors including catering, hospitality, retail, culture, tourism and transport to keep these job-supporting industries afloat.

Supporting Consumption Recovery

After falling by 3.9% year-on-year in 2020, retail sales of consumer goods rebounded in early 2021 but dropped again toward the end of the year. Sporadic COVID-19 outbreaks across more than a dozen provinces in Q1 of 2022 could further hinder consumption recovery. With domestic demand a key element of China's “dual circulation” model, both central and local government agencies responded to these challenges in the past year with a suite of consumption stimulus policies.

The Government Work Report largely builds on this previous work. Without specifying a retail growth target, it pledges to stabilize consumer spending through measures including supporting personal income growth, improving the income distribution system and providing incentives for targeted consumer durable goods. Support for the development of China's central, western and northeastern regions is also outlined as a long-term instrument to spur domestic demand.

Maintaining Focus on Financial De-Risking

China's pro-growth policy stance will not obscure its focus on financial de-risking. The rolling debt crisis in China's real estate development sector has prompted heightened consideration of how to ensure the sector's problems do not destabilize the national economy. With Chinese developers facing over CNY 741 billion (USD 117 billion) in debt repayments this year, the government underlined the need to keep land costs, housing prices and market expectations stable.

Premier Li Keqiang further announced a financial stability fund as an additional measure to "diffuse risks and potential dangers" through market-based mechanisms. While details are currently scarce, the fund is expected to support debt restructuring for defaulting real estate developers and local governments in financial distress, thereby mitigating contagion risks and negative impacts on the broader economy.

GDP growth target

around 5.5%



preferably 13 million

new urban jobs in 2022

urban unemployment rate

around 5.5%



CNY 2.5 trillion

in tax refunds and cuts

An aerial photograph of a winding asphalt road that snakes through a dense, vibrant green forest. The road curves in several loops, and a few small vehicles are visible on it. The overall scene is lush and scenic, with the road providing a clear path through the thick canopy of trees.

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China and the U.S. need to re-embrace the conviction that helped us break the ice 50 years ago and set out on a new journey.

— Foreign Minister Wang Yi

CHINA'S FOREIGN POLICY: Balancing External Uncertainties

Focused on an ambitious domestic economic agenda for 2022, this year's meeting presented China's external environment primarily as a source of risk. Recognizing the increasingly complex global environment, Foreign Minister Wang Yi noted that the "world has not completely defeated COVID-19, and yet it is now facing the Ukraine crisis." In this context, China will seek to more actively champion multilateral systems to solve global issues and oppose United States-led bloc building.

Reducing External Risk Through Multilateral Channels

In January, President Xi stated that solving global issues requires cooperation that sees all countries riding together in a "giant ship on which our shared destiny hinges" rather than separately "in some 190 small boats." The Two Sessions therefore positioned China as an advocate for greater economic openness, with promises of greater Belt and Road investment, vaccine assistance and more free trade agreements. Wang criticized "a small number of countries" as sources of interference and repeatedly called for India, the EU and others to adopt an independent foreign policy and reject "third-party" influence.

Wang also emphasized China's continued opposition to "bloc politics." Security alliances such as the Quad, AUKUS and the Five Eyes were criticized as damaging geopolitical posturing, and the U.S.' Indo-Pacific strategy was described as an attempt to establish a NATO-like structure in the region. Instead, China will promote the primacy of the UN in international affairs and support the role of ASEAN, the G20 and the BRICS coalition. The Government Work Report reiterated China's ambition to pursue integration into more "high-quality" free trade agreements.

Taking a Pragmatic Approach to Ties with the United States and the EU

Domestic economic pressures and the upcoming 20th Party Congress may push Beijing to seek warmer ties with the United States and the EU, as both represent

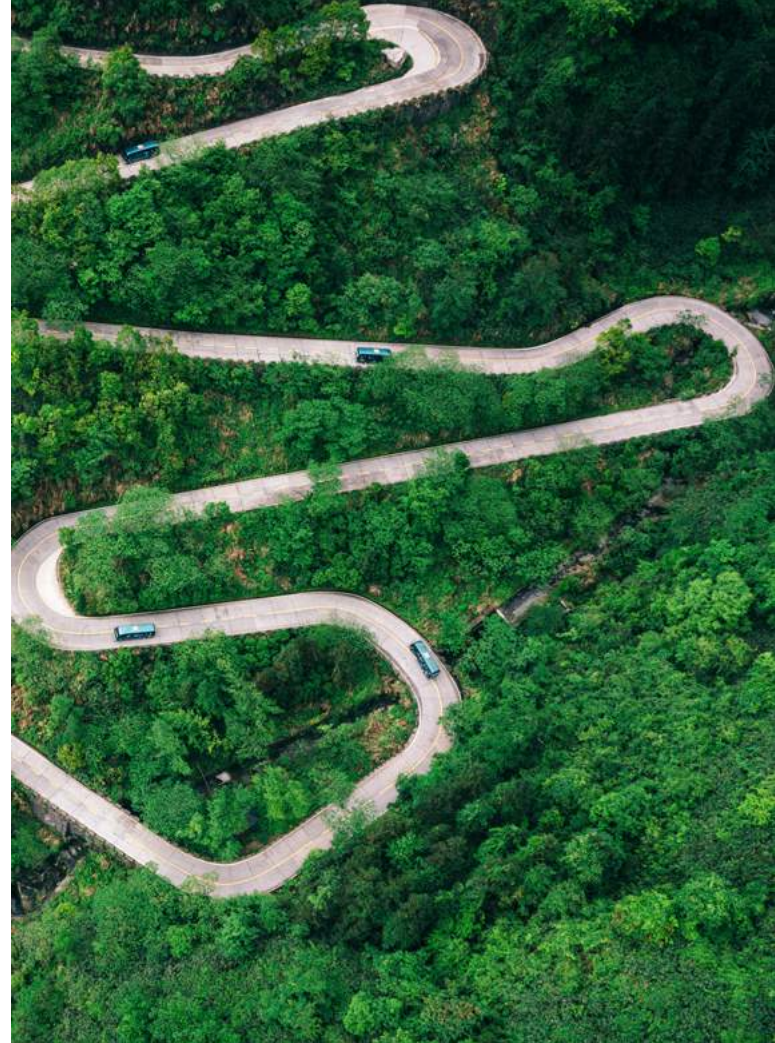
important sources of investment as well as suppliers for China's technology ecosystem. Wang avoided critical pronouncements on the Ukraine issue, focusing instead on China's own role in peacebuilding and humanitarian assistance.

In this context, senior figures issued several statements hinting at a desire for warmer relations. Referring to the 50th anniversary of the Shanghai Communiqué, Wang called on the United States to "re-embrace the conviction that helped us break the ice 50 years ago and set out on a new journey." Premier Li Keqiang called for closer cooperation and stated that "now the door has been opened, it shouldn't be closed, still less should there be decoupling." Reacting to the United States building closer relationships with the EU and European governments, Beijing urged the EU to act independently, while Wang spoke of China and the EU's international roles as rooted in "similar strategic needs."

Keeping Focus on China's Core Interests

A year has passed since Chinese and U.S. officials met in Anchorage, drawing clear lines between the two countries' respective positions on a range of issues from Taiwan to human rights. China has since then responded more sharply to international criticism and has continuously cautioned against interference in its domestic affairs. At the Two Sessions, Wang accused the United States of "provoking China on issues concerning our core interests," and accused leaders and senior officials in Washington of failing to act on their assurances that they have no intention to seek a new Cold War or change China's system.

Recent actions by the United States and others attracting particular criticism at this year's Two Sessions included the diplomatic boycott of the Beijing 2022 Winter Olympics, which Wang characterized as "politically-motivated attempts of disruption and sabotage by a handful of countries." He also criticized last year's United States-led Summit for Democracy, saying that the event "violated the spirit of democracy" by excluding China and other countries. With plans for a second summit underway, it is likely that democracy, human rights and other issues will remain major sources of tension in the year ahead.



IMPLICATIONS FOR YOUR SECTOR



ADVANCED
MANUFACTURING



ICT



HEALTH CARE



EDUCATION



FINANCIAL
SERVICES



CONSUMER
GOODS



TOURISM AND
HOSPITALITY



ADVANCED MANUFACTURING



Manufacturing accounted for 27.4% of China's GDP in 2021, increasing by 1.1% over the previous year despite disruptions to global supply chains and other challenges. This year's Two Sessions underlined the government's determination to enhance the competitiveness of this core industry. **For the first time, the Government Work Report included action to "boost the core competitiveness of manufacturing" among its key tasks.** This objective echoed official statements from December's Central Economic Work Conference and aligned with China's long-term ambition to upgrade its manufacturing industry toward medium and high-end products.

This drive to boost competitiveness will involve efforts to accelerate the development of advanced manufacturing clusters and strengthen traditional manufacturing facilities. A major element of this transformation drive is the expansion of digital infrastructure and technologies, such as the industrial internet. Another element is green transformation: China plans to build a green manufacturing system and promote carbon reduction in energy-intensive industries.

The government will continue to support MSMEs in the manufacturing sector with incentives to reduce R&D costs, with the goal of cultivating enterprises that are competitive in specialized technologies. Additionally, tax and fee reduction policies will be strengthened to support manufacturing enterprises with increased lending opportunities.

China's long-term pursuit of technological self-sufficiency is another key driver for advanced manufacturing development. Minister of Industry and Information Technology Xiao Yaqing told reporters that China's manufacturing sector needs to solve the core issue of self-reliance, signaling further support for domestic manufacturers to achieve breakthroughs in core technologies.

This does not mean closing the door on foreign manufacturers. **This year's Government Work Report specifically pledges support for more foreign investment in medium- and high-end manufacturing and R&D.** Foreign businesses with expertise in advanced manufacturing can expect more opportunities from this strategy, despite the increasingly competitive domestic market.



As one of the government's primary objectives for national development, **the Two Sessions naturally featured heavy emphasis on the development of ICT technology and industry.** The Government Work Report outlined the strengthening of supply chains, bridging of supply chain gaps, heightened technological self-sufficiency and indigenous innovation as major objectives. Continued digitalization of traditional industry and reformed governance of the digital economy featured alongside these goals.

Beyond these general goals, **the Government Work Report highlighted integrated circuits and artificial intelligence as technological areas of crucial importance.** Policies to encourage ICT development centered around increased financial support as well as tax incentives and deductions. This year also saw increased attention paid to technology MSMEs, with special financial support and tax deductions promised for smaller companies able to develop core components of integrated circuits and other essential materials.

The Two Sessions also built on the recent regulatory campaign against internet companies to outline longer-term development objectives for the digital economy.

These include prioritizing foundational technology development, digital infrastructure construction and the digitalization of traditional sectors. Specific projects include the recently launched drive to improve regional coordination of data processing, and continued reforms to data security, cybersecurity and personal privacy regulation.

The government's reinforced support for domestic innovation and technological development will undoubtedly lead to foreign ICT companies facing increased competition from domestic competitors. At the same time, compliance pressure from the enforcement of existing cyber and data security regulations will create further challenges for foreign ICT companies.

Nevertheless, official emphasis on international cooperation in technological innovation means opportunities remain. **Foreign companies can enhance their market position via collaboration with domestic institutions on R&D and talent development.** Digitalization will also benefit companies through the expansion of available data to inform future operations.





HEALTH CARE



In 2022, China's health care sector will develop along two lines. The first is ensuring continued control of COVID-19. The Government Work Report called for elevated capacity to respond to new outbreaks alongside the development of COVID-19 pharmaceuticals and vaccines. In the long-term, the National Administration of Disease Prevention and Control will advance disease prevention network reform and strengthen public health capacity. Direct management of regional disease control departments and the installation of new disease control supervisors in hospitals will enable the Administration to respond more efficiently to public health events.

The second is overall sector reform, including the nationwide roll out of DRG/DIP, which will transform Basic Medical Insurance reimbursement settlement method with public hospitals. The reform, under which provinces will choose either a DRG or DIP model for inpatient services, seeks to change hospital behavior by disincentivizing bad practices emerging from fee-for-service models. Alongside the normalization of volume-based procurement, the DRG/DIP reform and heightened scrutiny over misuse of insurance funds will improve the overall sustainability of the country's medical insurance fund in response to growing demographic pressures.

The government will continue to address regional inequalities in health care resources and limited capacity of primary-level medical institutions. National and regional centers of medical excellence will lead service innovation and training of health care practitioners in specific disease areas to help address this imbalance. National health campaigns will emphasize prevention, with investment concentrated in critical health challenges including cerebrovascular-cardiovascular diseases, cancer and rare disease drug supply.

As part of the country's drive for innovation and industry upgrade, China will also seek to resolve health care technology bottlenecks through increased support for domestic companies to develop world-leading health care products. Regional development strategies will continue to be the primary tool for this objective, with Hainan, the Greater Bay Area and Shanghai introducing measures designed to leverage and attract international investment that can support this goal.

EDUCATION



In 2021, the “Double Reduction” campaign ensured that education was among the country’s highest profile industries, with the changes serving as a microcosm of several longer-term government objectives for social development. At the Two Sessions, **the government signaled that its focus will remain on addressing educational inequality, particularly within the urban-rural divide, and on improving the services provided by the industry in a manner capable of supporting overall development goals.** Alongside adaptation to the changes necessitated by last year’s reforms, two areas are of particular note for foreign companies.

The government encouraged increased investment in vocational education. Having achieved its three-year enrollment expansion target for vocational colleges in 2021, the government will continue to upgrade the quality of vocational education while pushing for heightened industry-vocational education integration capable of meeting the demand for skilled labor necessitated by the country’s industrial transition.

At the same time, the government will continue to upgrade the country’s higher education system. The Government Work Report’s emphasis on utilizing education to train “professionals we are badly lacking in the fields of science, engineering, agriculture and medicine” indicates the direction that this work will pursue. While the focus of this work will be domestic institutions, foreign educational providers that can support this work through strategic partnerships are best positioned to benefit.

The “Double Reduction” campaign provoked considerable concern regarding the investment environment for foreign education providers within China. However, the reforms were signposted prior to their implementation and long-term opportunities for foreign investment remain unchanged. **Companies capable of improving in-school services through cooperation with local education providers, providing services that integrate vocational education with opportunities for practical application or helping support the development of talent in key industries will continue to enjoy growth potential within China.** MNCs able to demonstrate social impact and responsibility through education programs are also poised to benefit.





FINANCIAL SERVICES



In light of shifting global economic headwinds and stifled domestic demand, **this year's key objective for financial regulation is to balance sustainable economic growth with financial stability.** Consequently, the Two Sessions reiterated providing robust support to the real economy as one of the financial sector's top priorities. In addition to maintaining prudent monetary policy and proactive fiscal policy, the Government Work Report pledged to channel more capital into key sectors and MSMEs and further lower the financing costs for individuals and businesses to enhance market liquidity.

At the same time, **the government will likely accelerate reforms in the financial sector in 2022 to address risks that have emerged from rapid industry expansion in recent years.** The Government Work Report aims to deepen reforms to small and medium-sized banks' equity structures and strengthen control over nonperforming assets. Financial institutions can therefore expect tighter regulations, especially targeting practices that encourage bad investment behavior.

Another major focus for regulators is the financial sector's role in social security as China's population continues to age. In line with the newly approved policy guideline encouraging market-driven individual pension funds, the Government Work Report called for regulated development of third-pillar pensions to supplement to the national pension system.

Against this backdrop, China will continue to expand foreign access to its financial markets as the government aims to transition the industry toward a model better able to support the country's broader development goals. This presents ample opportunities for foreign financial firms with global experience and advanced business models that can elevate local industry standards, shape healthier industry practices and enhance investor well-being. **Demonstrating alignment with the government's agenda will provide foreign companies longer-term engagement benefits with key stakeholders, thereby improving their overall reputation and futureproofing business operations.**

CONSUMER GOODS

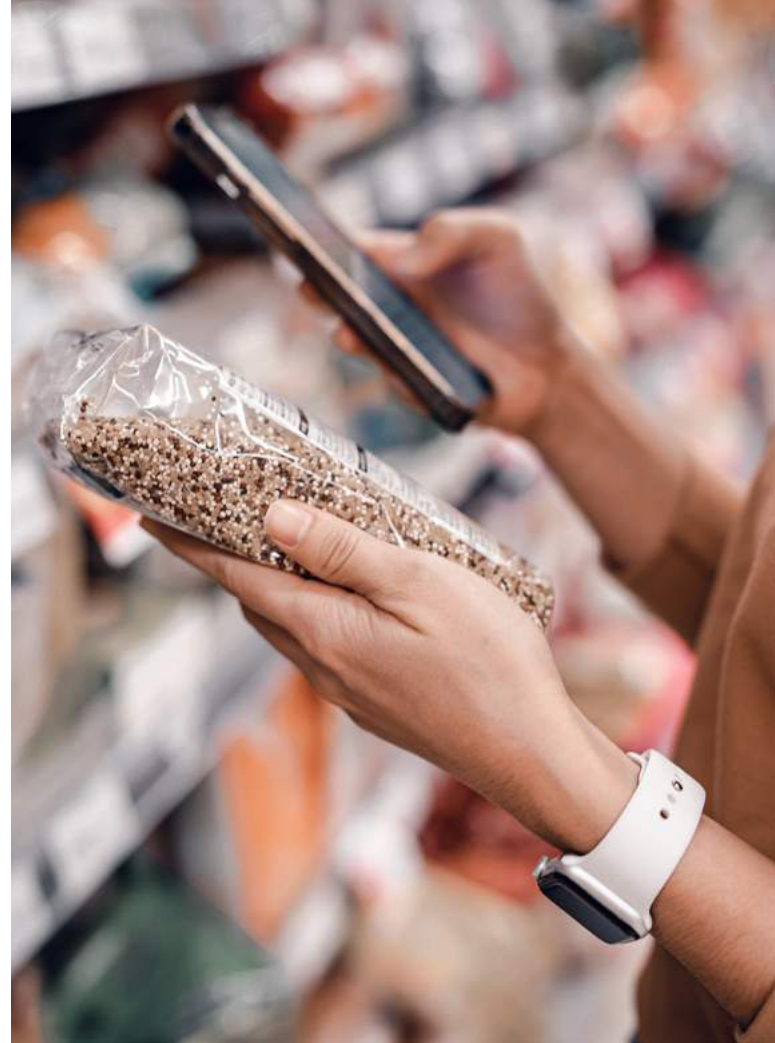


The close relationship between consumer goods and consumption means that the industry's fortunes are closely tied to broader attempts to stimulate the latter in the wake of COVID-19. Beyond the continued importance of these concerns in the short-term, 2022 will see a continuation of the foundation for overall industry upgrade laid by the government in 2021.

The Government Work Report called for the fostering of “new forms and models of consumer spending.” These efforts will build on last year's announcement of a plan for China's more affluent cities to become international centers of consumption, as well as the continuing digitalization of the consumer goods industry through innovative retail and marketing experiences, and the drive for more sustainable or greener consumption and consumer goods. These plans offer a roadmap for companies seeking to differentiate themselves within a highly competitive industry, with those able to integrate these offerings into a convincing China-value story most likely to succeed.

In 2021, many MNCs faced heightened scrutiny due to enforcement campaigns on product quality. The Government Work Report's pledge to continue improving the quality of goods and services and “better protect the rights and interests of consumers” signals that these campaigns will continue. Companies should ensure that supply chain and quality oversight is sufficient to avoid being affected by such campaigns, with proactive improvements to these processes also providing a positive signal of industry leadership.

While the environment remains challenging, the wealth of international experience and cultural capital enjoyed by consumer goods companies ensures that opportunities remain abundant. Continued adaptation to the evolving tastes of Chinese consumers, matched with clear demonstration of contribution to raising standards within China's own domestic industry, offer a clear way forward.





TOURISM AND HOSPITALITY



China's tourism industry continued to face the strain of sporadic COVID-19 outbreaks in 2021, with revenue reaching just 51% of that recorded in 2019. **The government's policy agenda for 2022 is therefore heavily influenced by the need to help the industry survive the ongoing impact of the pandemic,** alongside longer-term objectives for digitalization, narrowing cross-regional development and advancing heritage tourism and other forms of tourism unique to China.

The pandemic has accelerated the digitalization of the industry, with 2022 expected to continue this trend through the expansion of smart tourism, digital cultural products and the digitization of cultural facilities and services. This trend will be combined with tax incentives and employment support for the industry to ensure that enterprises can survive the ongoing financial strain of the pandemic, with policies emerging from the Two Sessions including tax rebates, preferential loans and calls for larger platforms within the industry to lower fees for the MSMEs that use their services.

While the industry is in a difficult place, the government's focus on leisure, historical and rural tourism as a means of boosting economic growth in less-developed regions **offers a clear pathway for companies to expand within China while enhancing stakeholder reputations.** Pledges to increase construction of national cultural parks and public cultural facilities alongside the development of key tourism infrastructure, further offer important guidance for companies on how to develop in line with the industry's development trajectory. Finally, building on the legacy of the Beijing Winter Olympics, the government announced continued support for winter and snow-based tourism. **Companies able to build on their experience of winter tourism elsewhere will be well placed for success once the pandemic subsides.**

APCO CHINA

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