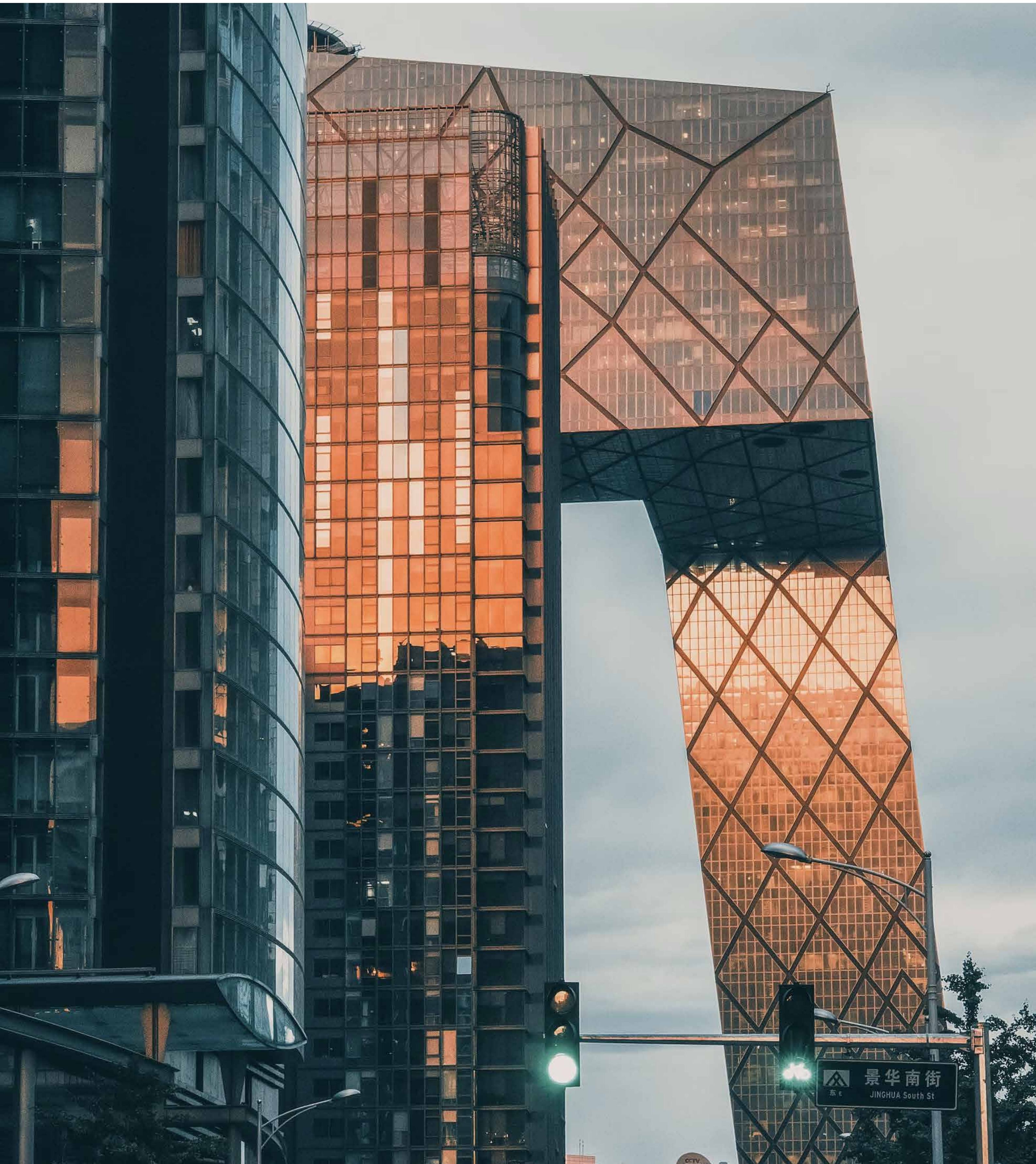
WE RED BRIDGE

Two Sessions 2024: Learnings and Analysis

WE Red Bridge | March 2024



Every year, China's legislative body, the National People's Congress (NPC), and its advisory body, the Chinese People's Political Consultative Conference (CPPCC), convene in Beijing for parallel meetings known as the 'Two Sessions'. At these meetings, top leadership unveil their priorities and development goals for the year ahead, allowing the Chinese people and the international community to understand their vision for the world's second-largest economy.

A property crisis, deflationary pressure, mounting local government debt: economic managers have their hands full this year. Despite the many challenges they face, Beijing projected confidence in the economy and rolled out an ambitious growth target at this year's Two Sessions. While no major stimulus measures were announced, Chinese leaders aimed to signal the markets by laying out a plan for moderate fiscal intervention, deepening reforms, and expanding top-level access. As in years past, reports emphasized the need for stability, but a steady growth also emerged as a key priority. Pursuing progress while ensuring stability thus is the prevailing guidance laid out in the Government Work Report (GWR) this year, with steady economic development and overall social stability as long-standing objectives.

In this advisory, we present the policy direction for 2024 and assess its impact on the market. With sector-specific highlights across technology, health, and consumer, we offer strategic recommendations for how brands should leverage these policies to maximize growth in China's challenging yet dynamic market.

Key Takeaways

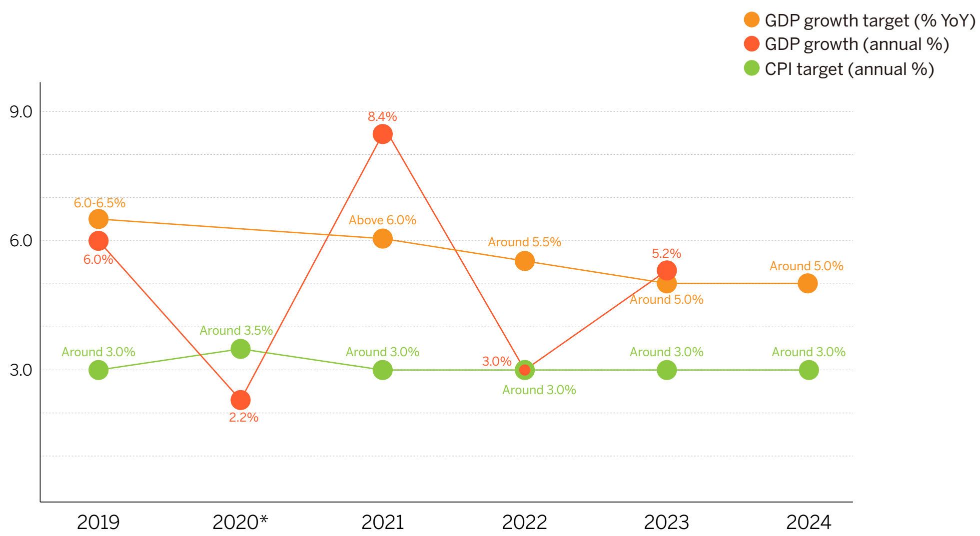
Pursuing progress while ensuring stability

Ambitious growth agenda

China's GDP growth target for 2024 was set at about 5%, fiscal deficit remained unchanged from last year at 3%, and RMB 1.0 tn in special national bonds were announced. While the growth target is the same as in 2023, it may indeed be more ambitious this time, as pent-up demand from the pandemic levels off and challenges in the property market persist. The National Development and Reform Commission (NDRC) cautioned in its report that achieving this growth agenda will not be easy and called for 'concerted efforts' to deepen reform and opening and stressed the need to work toward greater self-reliance in the science and technology sector.

'New quality productive forces' crucial to China's economic development

Legislators emphasized the need to develop 'new quality productive forces' as part of efforts to modernize the country's economic system, with innovation playing a crucial role in promoting technological transformation and industrial development. Through this shift toward 'new quality' industrialization, the government aims to raise total factor productivity, develop new drivers of economic growth and new core strengths, and enhance competitiveness. Private and state-owned enterprises are central to China's modernization drive, with regulators pledging to stimulate the vitality of market entities, including small and medium-sized enterprises (SMEs), foster business collaboration, and continue to advance the development of 'high-caliber' talent.

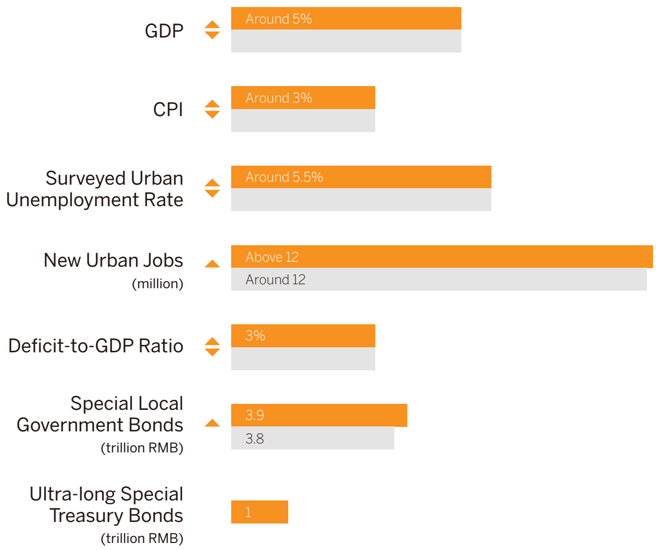


Source: Chinese government website
**GDP growth target not set due to COVID-19*

2019-2024 Growth Comparison

Stable consumption growth

Reports reveal top-level consensus that, given the ongoing challenges to the real estate sector, domestic consumption will be critical to China's pursuit of 'high-quality' economic development. According to official figures, between the three core factors driving economic growth, namely consumption, investment, and exports, consumption contributed 82.5% of China's overall GDP growth in 2023, while retail sales set a new record of RMB 47.15 tn, amounting to growth of 7.2% growth year on year (YoY). In its plans for 2024, the government signaled support for boosting consumption, with a focus on the automotive sector, home appliances, and durable consumer goods, shifting growth in these areas towards digital, environmental, and health verticals, as well as seeking growth in the service sector such as catering and tourism.



Source: Government work reports

2023-2024 Economic Targets Comparison

Lower market access barriers for foreign capital

Officials reaffirmed their commitment to attracting foreign capital investment. Efforts to integrate domestic and foreign trade, improve the business environment, and facilitate people-to-people exchanges signal the continued desire for greater market access by foreign-invested enterprises (FIEs) on behalf of economic managers. Specifically, the 2024 GWR highlights measures to lift all foreign investment restrictions in the manufacturing sector and relax market access restrictions in telecommunications, medical services, and other service industries. Beijing also proposed to shorten the negative list for foreign investment, expand the Catalog of Encouraged Industries for Foreign Investment, and ensure national treatment for FIEs that participate in government procurement, bidding, and standard-setting processes in accordance with the law. Official pledges to expand high-level opening-up and reinforce stability in foreign trade are designed to signal that China remains a key engine of global economic growth, despite ongoing challenges to the domestic and global economies.

Focus on green development

In a move targeted to communicate their continued commitment to making clean energy sectors a key pillar of China's long-term economic growth, the authorities set a goal to reduce energy consumption per unit of GDP by 'around 2.5%' in 2024, though this target was considered 'conservative' by analysts given China's 14th Five-Year Plan pledge to reduce energy intensity by 13.5% between 2021 and 2025. In general, rising energy consumption by industry and households overall present challenges to the nation's transition to green development. Nevertheless, we continue to see investment opportunities in renewables and NEVs, which remain priorities for government stimulus as Beijing aims to reach peak carbon by 2030. In 2023, the green economy contributed a staggering RMB 11.4 tn to China's gross domestic product. The 30% jump from the previous year allowed the clean energy sector to become the largest driver of economic growth overall.

> ***China remains strong as an engine for growth. The 'next China' is still China.***
>
> Foreign Minister Wang Yi

Analysis and Implications: Technology

Technological innovation to unleash 'new quality productive forces'

Key Takeaways

Electric vehicles, li-ion batteries, and photovoltaics demonstrate Chinese manufacturing prowess

This year's GWR references nearly 30% growth in 2023 in exports of electric vehicles, lithium-ion batteries, and photovoltaic products, known as the 'new three'. This growth is an important achievement in the development of a strategic manufacturing ecosystem within China, and the integration of foreign and domestic trade in these key sectors.

'AI Plus' to underpin innovative development

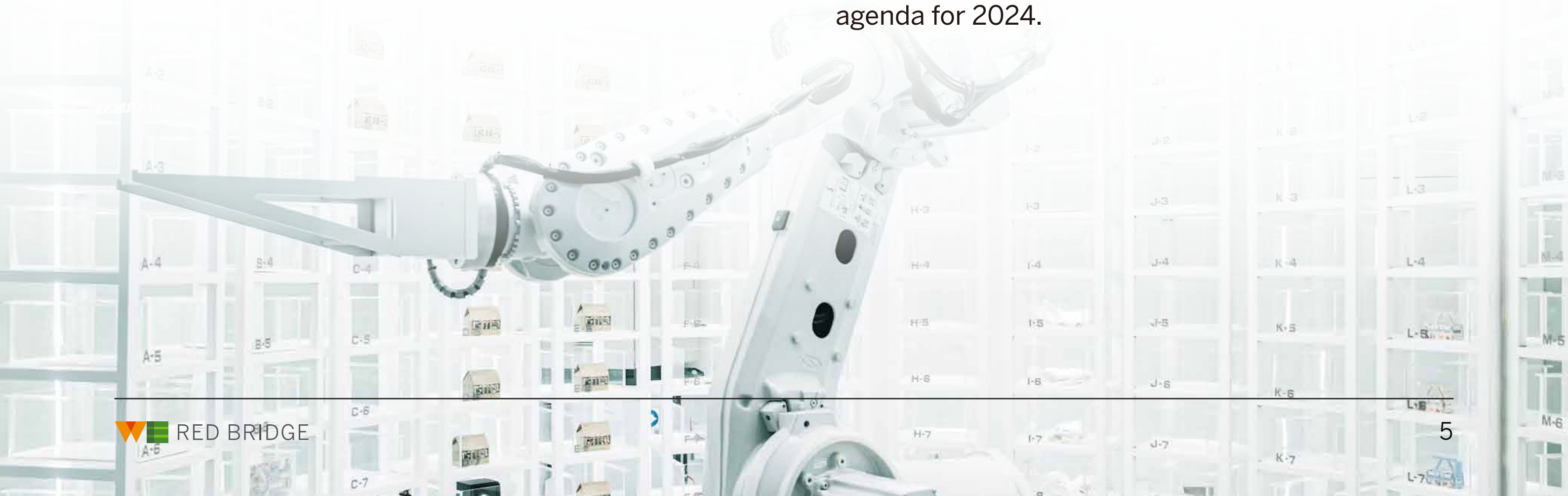
AI Plus is an initiative supporting deepened integration between AI and industry, announced during the Two Sessions and designed to facilitate the integrating of artificial intelligence technology into society and the economy to drive high-quality development and economic growth. The focus on AI Plus this year could make 2024 the year in which commercial applications for domestically developed AI and large models become mainstream across the Chinese economy and society.

Cultivating the future of Chinese industry

'Future industries', first referenced in the 14th five-year plan and reaffirmed in 2024's Two Sessions, refers to six focus industries the government will use as the engines to power future economic growth, namely, manufacturing, information, materials, energy, space, and health. Within these spaces, next generation IT, AI, biotechnology, new energy sources, new materials, high-end equipment, and environmental production are outlined as the key drivers of innovation and growth. These industries and areas of focus have also become top priorities for legislators in the United States, the European Union, and Japan in recent years.

Building a nationally unified computational system

Chinese policymakers pledged to accelerate the development of a nationally unified computational system aimed at improving data computation capability and security governance. As outlined, the aim focuses on promulgating standards, improving efficiency, and adding overall power, while optimizing the distribution of data centers in China's Eastern, Central, and Western regions. This year is the first time that the nationally unified computational system has been featured in the GWR, which suggests that accelerating digital transformation ranks highly on Beijing's policy agenda for 2024.



Implications for Technology Brands

Zero in on ‘AI Plus’

With AI Plus becoming a buzzword in China’s 2024 tech agenda, embracing artificial intelligence no longer is an option for technology brands, but a must. Technology companies in China must capitalize on government efforts to spearhead the development of frontier technologies on the path to high-quality growth.

Optimize for green development

Green transition and sustainability continue to be key themes in this year’s Two Sessions, as evidenced by concepts like the ‘new three’. Technology brands must develop compelling narratives communicating advances in efficiency and application while also articulating the value created through sustainability practices. As evidenced by WE Red Bridge’s latest report, ‘ESG Means Business in China’, ESG and sustainability are now business imperatives for companies to succeed in the Chinese market and have evolved from improving reputation to generating awareness and converting sales.

Optimize for a nationally unified computational system

Cloud computing enterprises, IaaS in particular, stand to gain significantly from the development of a nationally unified computational system. We anticipate cloud computing enterprises that actively support China’s digital transformation by integrating their businesses and solutions with the national computational system to reap rewards as it develops.

Emphasize ‘new quality productive forces’ in corporate communications

First put forward by President Xi Jinping in September 2023, the phrase ‘new quality productive forces’ has been employed extensively in corporate communications by technology companies. In line with this year’s policy trend, technology brands must tell compelling innovation stories and demonstrate commitment to advancing the transformation and progress of China’s technology industry.

> ***We are delighted to see the Chinese government push ahead with ‘AI Plus’, as this will create new opportunities for technology brands. Artificial intelligence is a core pillar at HPE Aruba Networking, and we are committed to helping customers integrate AI and security capabilities seamlessly into enterprise network services as they transition to digital transformation. We strongly believe that ‘AI Plus’ will bring about a new wave of technological innovation and power the development of the digital economy in China as well as internationally.***
>
> Andrew Wan, Marketing Director, HPE Aruba Networking, China

Analysis and Implications: Healthcare

Driving innovation and optimization in the healthcare industry

Key Takeaways

Spotlight on innovative medicines and life sciences

For the first time at this year's Two Sessions, authorities pointed to innovative medicines and life sciences as strategic drivers of future-oriented industries. This signals that central policymakers have assembled strategic resources and funding to drive excellence and innovation in the Chinese healthcare sector.

Increased market access for foreign healthcare players

The government laid out efforts to attract foreign investment in China and expand access to the healthcare sector, targeting to boost the R&D and manufacturing capacity of the domestic pharmaceutical industry through foreign investment. This process is also designed to enhance China's international competitiveness and solidify its position in the global innovation ecosystem, creating opportunities for foreign and Chinese medical companies to work together to create a health ecosystem based on bringing in top technology from abroad and exporting outstanding Chinese technology, placing China in a position of influence in the global healthcare industry.

Improving medical services

National legislators committed to promoting the accessibility, fairness, effectiveness, and sustainability of medical services. As outlined in the Two Sessions, policymakers are seeking to accelerate change in China's medical system by making direct references to issues including unifying management of basic medical insurance funds at the provincial level, centralizing medical procurement, strengthening medical insurance funds, and focusing on settling medical expenses where they are incurred.

Addressing China's aging population through enhanced social services

The report pointed out the need to implement a national strategy to respond to China's aging population, which should include improving medical services for nursing and elderly care and more. According to the GWR, such measures should also include implementing a private pension system nationwide, encouraging the development of third-pillar pension plans, and optimizing parental compensation and leave policies, among others.

Implications for Healthcare Brands

Enhance technological innovation and articulate unique advantages

Increasing the share of productivity growth driven by innovation is at the core of China's economic strategy, and it also powers medical enterprises' drive to create new breakthroughs. To maximize their competitiveness, brands should focus on future, high-quality growth areas in the medical industry, such as oncology, weight loss, Alzheimer's disease, hair loss, and atopic dermatitis and increase R&D investment in new therapies and increasing clinical efficiency. At the same time, healthcare brands must continue to build innovative collaborations with government agencies, organizations, and other commercial partners to achieve outcomes that benefit both players and the industry as a whole. Brands can then leverage these strategies to enhance overall brand image by communicating breakthrough innovations and articulating how their offerings differ from competitors. (For more insights and recommendations for health brands, refer to WE Red Bridge's Brands in Motion report 'Healthy Reputation: More Than Medicine').

Champion 'In China for China'

Multinational companies' investments in China—from R&D facilities and new plants to the introduction of cutting-edge products—demonstrate the positive business response to government policies aimed at opening the domestic market to foreign firms. Viewed by Beijing policymakers as important contributors to the Chinese economy, healthcare brands must demonstrate the value they create for China by partnering with local players and advancing the nation's development agenda.

Continue to support accessibility and education

Companies should focus on communicating their efforts to enable equitable access to medicine and public health education, particularly in sectors such as disease prevention and control, medicine accessibility, and the inclusion of high-cost drugs in medical insurance plans. At the same time, they must also communicate their partnerships with central and local governments, academic institutions, associations, and more on public health projects. Both efforts align with central policy initiatives, meet patient needs, and can also enhance corporate image.

Analysis and Implications: Consumer

Boosting economic development through stable consumption growth

Key Takeaways

Stimulating service consumption

China's top legislators will seek to boost economic growth in 2024 by stimulating growth in service consumption through creating new ways and occasions to purchase experiences and services. Branded as the 'year of consumption promotion', policymakers plan for 2024 to see domestic demand and increased consumer spending playing a bigger role in driving growth.

Encourage replacement of old consumer goods to stimulate traditional spending

To stimulate consumer spending, policymakers plan to encourage consumers to replace old cars, home appliances, and other big-ticket items with intelligent and new-energy vehicles, smart homes, digital, and environmentally friendly goods in a push whose total value could reach one trillion RMB over its full lifecycle. This push can generate opportunities in the secondhand market, introduce new patterns of sustainable consumption, and increase sales on online secondhand platforms.

Upgrading consumption

References to domestic consumption as an important driver of long-term growth remain unchanged since 2023's Two Sessions. Consumer behaviors continue to evolve, new retail channels are emerging, and Chinese shoppers demand an ever greater level of customization. At the same time, consumers are becoming more health and quality conscious which leads them to place a higher value on experience and show interest in more sustainable lifestyles. To keep up, brands must deepen efforts to offer greater product differentiation to cater to China's fast-evolving consumer trends.

Implications for Consumer Brands

Draw on insights into consumer demand, embrace technology, and enhance consumer experience

To drive spending and meet the changing needs of a wide range of consumers, deepening the application of new technologies such as cloud computing, big data, and AI will be critical. Brands must invest in cutting-edge technologies that improve the consumer experience and, in turn, drive consumer demand. They must also closely monitor changing consumer preferences and behaviors, develop agile product and marketing strategies, and provide highly functional, diversified, and personalized product and service offerings.

Lean into green consumption and expand growth channels

Green consumption is an established trend among young consumers, as shown by Trendforesee Consulting's '2023 China Consumer Trend Report', which found that more than 73% of consumers now prioritize products or brands with green credentials. Consumer goods brands must call on the government to accelerate the implementation of incentives for green and low-carbon products, systematically carry out product technology innovations, increase green investments, and provide a wider range of green and low-carbon products. They must also adopt innovative marketing tactics and employ multi-channel communications strategies to derive benefit from the green and low-carbon lifestyle trends, while also educating target audiences on green consumption topics.

> ***China has repeatedly introduced policies favorable to foreign enterprises and has provided us with the confidence to keep on investing in the country. Going forward, we will continue to implement our three-pronged strategy, 'consumer-focused product innovation', 'continuous digitalization', and 'future-oriented sustainable development' to provide Chinese consumers with more diversified products and services that meet their needs.***
>
> Yongmin Huang, China President, Amorepacific Corporation

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About WE Red Bridge

WE Red Bridge is an award-winning consultancy with a proven track record of delivering growth for businesses in China. From our offices in Beijing and Shanghai, we combine holistic business understanding, agile planning, creative storytelling and digital know-how to help clients shape reputations and build high-value communities that achieve business growth in the world's most dynamic market.

How multinational companies understand and respond to central government policies is critical to business success in the Chinese market. WE Red Bridge deploys agile teams with strong industry knowledge and local experience to provide business leaders strategic intelligence and trusted counsel that inform scenario planning and turbocharge decision making in China.

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