



## 2023 Two Sessions:

# Delivering the Party's Blueprint

BRUNSWICK

博然思维

March 14, 2023



# Two Sessions at a Glance

- **Party firmly at the center, with Xi at the core.** If there was any question, this Two Sessions reaffirmed Xi's unequivocal position above all others in the country. Already confirmed for an unprecedented third five-year term as Party chief last October, Xi Jinping was also reappointed President and head of the military as expected.
- **All aligned behind Xi.** The new leadership team—from the Politburo to the State Council—is heavily weighted to those allied to Xi. Expect this team to execute with singular focus and conviction.
- **It's all about the economy.** In his first meeting with the media on Monday following appointment as Premier, Li Qiang was pragmatic and focused on the economy, providing hope that he may have greater flexibility to implement business-friendly policies and accelerate growth than his predecessor.
- **Securing the nation.** National security priorities set at the 20<sup>th</sup> Party Congress last October remain paramount. All issues are now seen through a national security prism, driving a whole-of-state response to boosting self-reliance and bolstering security.
- **Fading distinction between Party and state.** Institutional restructuring has further blurred boundaries between the Party and the government, with the former exercising greater control over day-to-day operation, especially in sectors deemed critical to the nation's future.
- **Sci-tech and financial bodies overhauled.** Restructuring of key government institutions aims to tackle risks and perceived weaknesses in science, technology and innovation, finance, national security and demographics.
- **Great power competition.** Seldom mentioned by name, Xi made a rare direct reference to the US at this year's gathering, highlighting personal frustration over unprecedented competitive challenges and their impact on China's development.
- **Still reforming and opening-up.** Officials reaffirmed commitment to opening-up and support for foreign investment, but rebuilding business confidence will require more than positive signaling. Business sentiment will only improve in response to clear, sustained action over an extended period.
- **Opportunities remain.** Growing a USD 18.3 trillion economy by five percent this year presents opportunities, but business planning requires clear assessments of market risks. After three years of border restrictions, leaders should plan to spend time on the ground in China to re-assess the realities of their businesses and sectors.
- **Strong policy continuity.** The new government will carry out work according to the direction set at the 20<sup>th</sup> Party Congress. Read our [previous report](#) for an overview of priorities set for the next five years.





# Introduction

Economic stability and national security dominated China's "Two Sessions" meetings this year, as the country seeks to tackle challenges identified at the 20th Party Congress and revive the economy in the wake of Covid-19.

The annual meetings of the National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) completed senior leadership changes started last October, with confirmation of a new State Council leadership team.

With the leadership team in place, expect a singular focus on executing the plans set at the 20th Party Congress by Xi Jinping, including delivering technological self-sufficiency and tackling financial risks.

The government set a GDP growth target of about five percent for 2023, after achieving just three percent growth in 2022 under severe Covid-19 restrictions. Following Beijing's pivot away from "dynamic zero" Covid-19 management, the meetings promised measures to lift domestic demand, a modest rise in government spending, targeted tax breaks for small businesses, and a more proactive fiscal policy. The leadership also committed to a "level playing field" for all companies, irrespective of ownership.

Incoming Premier Li Qiang focused on economic stability and support for the private economy in his first public remarks as China's second-highest ranking official, striking a pragmatic tone and seeking to reinforce entrepreneurial confidence.

At the same time, the meetings renewed commitments to multinational companies and overseas investors that reform and opening-up would continue. The test for companies will be whether those commitments are backed up with concrete, sustained improvements to the business environment. For MNCs operating in China, it will be important to pay close attention to developments in the coming year, both to spot opportunities and emerging risks.

The defining feature of the meetings' outcome, however, was further consolidation of the Party and state. Many of the policy directions had already been set in stone at the 20th Party Congress last October.

In the words of Premier Li Qiang, the work of his government will be firmly focused on "turning the grand blueprint drawn by the 20th Party Congress into a construction plan," with Xi as foreman.

The NPC approved a restructuring of key government departments to address core challenges while delivering efficient, effective execution of Party directives.

The Party now oversees science and technology matters via the newly established Party-run Central Science and Technology Commission, which guides a restructured Ministry of Science and Technology charged with coordinating the nation's science and technology research and development.

The restructuring also created a National Financial Regulatory Administration to unify oversight of the financial sector and eliminate regulatory arbitrage. A newly established National Data Bureau, meanwhile is tasked with coordinating the build-out of national digital infrastructure and delivering the Digital China plan.

The National Development and Reform Commission, China's economic planning agency, called for collaborative efforts to mobilize resources nationwide and to support private business engagement in major strategies. Food security, energy security, industrial and supply chain security and national security were all prioritized. State leadership also made clear China would maintain an assertive foreign policy, with Foreign Minister Qin Gang calling on the US to "hit the brakes" or risk "conflict and confrontation."

All this came with a sharpened focus on national security. For decades, economic development has been the Party's primary and central task. Since Xi's second term, the Party, faced with increasing external headwinds, has made a major shift in how it views the relationship between development and security.

In his closing speech to delegates on March 13, Xi called to better balance development and security. "Security is the foundation for development, and stability is the precondition for prosperity," he said, signaling that security is now an equally if not more important task. With mounting geopolitical tensions, this security-development paradigm will continue to guide policymaking in the foreseeable future.

In the face of these changes, the question asked by foreign investors is whether there is a place for foreign business in China.

The authorities spoke this past week about the importance of foreign investment and delivering national treatment for foreign-funded companies. We have also seen firsthand that authorities are leaning in and seeking to re-engage with business.

It is still early days following the reopening of China after three years of Covid-19 measures and border restrictions. Despite positive signaling, no new policies were put forward specific to foreign investors. Rebuilding business confidence will require clear, sustained action delivered over an extended period.

*Our team based on the ground in China and around the globe focused on China matters has dissected this year's Two Sessions. Here we present a snapshot of key themes that have dominated the Congress and we look at the new leadership team. If you would like to be added to our future updates on China, please drop us a note at [ChinaPublicAffairs@BrunswickGroup.com](mailto:ChinaPublicAffairs@BrunswickGroup.com).*

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# A New Leadership Team

Last October at the 20<sup>th</sup> Party Congress, Xi Jinping was confirmed for a third five-year term as Party chief. As expected, on March 10 Xi was also confirmed for third five-year terms as China's President and Chairman of the country's Central Military Commission.

With a third five-year term as head of the Party (the most critical position), head of the military, and head of state, Xi has abandoned norms that had governed promotion and succession since the 90s. By removing the presidential term limit in 2018, blocking potential successors designated by his predecessors, and not presenting any new successor candidates, it is impossible to determine how long Xi will remain in his current position. Based on the Politburo and State Council, expect Xi to be in office for at least two more terms.

On March 11, Li Qiang (李强), the second-ranked Party leader and former Party Secretary of Shanghai, was confirmed as Premier succeeding Li Keqiang. Other members of the State Council were confirmed on the following day, including Ding Xuexiang (丁薛祥) as Executive Vice Premier, He Lifeng (何立峰), Zhang Guoqing (张国清), and Liu Guozhong (刘国中) as Vice Premiers, and Li Shangfu (李尚福), Wang Xiaohong (王小洪), Wu Zhenglong (吴政隆), Shen Yiqin (谌贻琴, female), and Qin Gang (秦刚) as State Councilors.

As in the Politburo, Xi's most trusted allies filled the most important positions in the State Council, regardless of experience. Li Qiang became the first Premier since Zhou Enlai to sit atop the State Council without serving first as a Vice Premier. Ding Xuexiang also defied recent history and became Executive Vice Premier with no experience running a province or municipality. Xi's old deputies from Fujian, He Lifeng and Wang Xiaohong, will look after the country's development and security, respectively.

While concerns have been raised that the incoming State Council members have limited relevant experience, and have risen solely by

being "Xi's people," it will be important to see the teams the State Council members put in place to execute their portfolios and responsibilities. In addition, we expect imminent changes in Party structures to further blur the line between Party and government, focusing the State Council on executing Party instructions.

Former Executive Vice Premier and Politburo Standing Committee member Han Zheng (韩正) was confirmed as Vice President, succeeding Wang Qishan. While the President and Vice President roles are largely ceremonial, expect Han Zheng to engage at key global platforms and receive foreign guests.

On March 12, the newly appointed Premier announced the new leaders of the country's 26 ministries and commissions. Of the 26, only two were new appointments. Zheng Shanjie (郑栅洁), former Anhui Party Secretary, was appointed to lead the NDRC, and Central Military Commission member Li Shangfu (李尚福) was appointed to lead the Ministry of Defense.

To observers' surprise, central bank governor Yi Gang (易纲) and Minister of Finance Liu Kun (刘昆) retained their roles. The move keeps experienced leaders in these portfolios and underlines the priority of economic and fiscal stability, though we anticipate leadership changes in these portfolios during this five-year cycle.

The State Council team includes one woman, who is also the only ethnic minority member—Ms. Shen Yiqin, who is Bai minority (白族) from Guizhou. The latest leadership team, including the 24-person Politburo, ten-person State Council and the 205-person Central Committee, has become less diverse than even previous nominal attempts at diversity in terms of gender, ethnic background, and factional alignment. Even in the Central Committee, there are only 11 women and nine ethnic minorities.

Ministries & Commissions	Minister	YOB
Ministry of Agriculture and Rural Affairs	Tang Renjian (唐仁健)	1962
Ministry of Civil Affairs	Tang Dengjie (唐登杰) *	1964
Ministry of Commerce	Wang Wentao (王文涛)	1964
Ministry of Culture and Tourism	Hu Heping (胡和平)	1962
Ministry of Defense	Li Shangfu (李尚福) ◇	1958
Ministry of Ecology and Environment	Huang Runqiu (黄润秋)	1963
Ministry of Education	Huai Jinpeng (怀进鹏)	1962
Ministry of Emergency Management	Wang Xiangxi (王祥喜) *	1962
Ministry of Finance	Liu Kun (刘昆)	1956
Ministry of Foreign Affairs	Qin Gang (秦刚) *	1966
Ministry of Housing and Urban-Rural Development	Ni Hong (倪虹) *	1962
Ministry of Human Resources and Social Security	Wang Xiaoping (王晓萍) *	1964
Ministry of Industry and Information Technology	Jin Zhuanglong (金壮龙) *	1964

Ministries & Commissions	Minister	YOB
Ministry of Justice	He Rong (贺荣) *	1962
Ministry of Natural Resources	Wang Guanghua (王广华) *	1963
Ministry of Public Security	Wang Xiaohong (王小洪) *	1957
Ministry of Science and Technology	Wang Zhigang (王志刚)	1957
Ministry of State Security	Chen Yixin (陈一新) *	1959
Ministry of Transport	Li Xiaopeng (李小鹏)	1959
Ministry of Veterans Affairs	Pei Jinjia (裴金佳) *	1963
Ministry of Water Resources	Li Guoying (李国英)	1963
National Audit Office	Hou Kai (侯凯)	1962
National Development and Reform Commission	Zheng Shanjie (郑栅洁) ◇	1961
National Health Commission	Ma Xiaowei (马晓伟)	1959
People's Bank of China	Yi Gang (易纲)	1958
State Ethnic Affairs Commission	Pan Yue (潘岳) *	1960

\* Appointed since start of last year and before this year's Two Sessions | ◇ Appointed during this year's Two Sessions



# Who's Who in the New State Council

## Premier



**Li Qiang (李强)**, 63 years old, replaces Li Keqiang as China's Premier. Li is considered a close ally of Xi Jinping, having served as Xi's chief of staff when he was Zhejiang Party Secretary. Prior to his rise to Premier, Li served as Party Secretary of Shanghai from 2017 to 2022, including overseeing Shanghai's controversial lockdowns last year. While the lockdowns are fresh in the minds of many, prior to the pandemic, Li was seen as positively engaged with business in Shanghai. Li also brings additional hands-on governance experience from his early posts in Jiangsu and Zhejiang. In addition to serving as Premier, Li is the second highest ranked member of the Politburo Standing Committee. He joined the Politburo in 2017.

## Vice Premier



**Ding Xuexiang (丁薛祥)**, 60 years old, is Executive Vice Premier and a member of the Politburo Standing Committee. Considered one of Xi's most trusted confidants, Ding first worked as Xi's secretary in 2007 while Xi was in Shanghai, and later served as his Chief of Staff from 2013 to 2023. Ding combines a sci-tech background and experience in numerous Party departments but has no experience running a province or major city. Ding joined the Politburo in 2017 and its Standing Committee last year.



**He Lifeng (何立峰)**, 67 years old, is Vice Premier and a Politburo Committee member. Over the past five years he led the country's macroeconomic planning as head of the National Development and Reform Commission. He built his career in Fujian from the 1980s until his appointment in 2009 as Deputy Party Secretary of Tianjin. He is considered a close ally of Xi, having served with him in Fujian. He joined the Politburo last year.



**Zhang Guoqing (张国清)**, 58 years old, is Vice Premier having served as Party Secretary of Liaoning for the past two years. Before his appointments as Deputy Party Secretary of Chongqing in 2013 and Mayor of Tianjin in 2018, he spent most of his career in Norinco, China's largest defense manufacturer. Zhang has a PhD in quantitative economics from Xi's alma mater, Tsinghua University. He joined the Politburo last year.



**Liu Guozhong (刘国中)**, 60 years old, is Vice Premier having served as Party Secretary of Shaanxi since 2020. Liu has significant local experience, having also previously held senior positions in Jilin, Sichuan, and Heilongjiang. From the early 1990s to 2016, Liu rose through the system in Heilongjiang. In addition to his provincial posts, Liu served as deputy head of the All-China Federation of Trade Unions from 2013 to 2016. Liu joined the Politburo last year.

## State Councilor



**Li Shangfu (李尚福)**, 65 years old, was appointed to the Central Military Commission last October and Minister of National Defense during this past week's Two Sessions. Li is a member of the People's Liberation Army and was sanctioned by the US in 2018 for his role in purchasing Russian fighter jets and missile systems, creating new complexities in bilateral engagement. The son of a PLA commander, Li spent his early career in China's satellite program. Li joined the Party's Central Committee in 2017.



**Wang Xiaohong (王小洪)**, 65 years old, is Minister of Public Security, head of the Secretariat of the Party's Central Committee, and deputy head of the Central Political and Legal Affairs Commission, the party's top legal body. A Fujian native, Wang rose through the ranks in his hometown province, leading the provincial capital's public security branch when Xi was its governor. From 2013, Wang held senior positions in Henan and then in Beijing from 2015. Wang joined the Party's Central Committee in 2017.



**Wu Zhenglong (吴政隆)**, 58 years old, serves as Secretary-General of the State Council and will work with the new Premier managing the State Council. Prior to this appointment, he spent six years in Jiangsu serving as Nanjing Party Secretary, Jiangsu Governor and later Party Secretary. Early in his Jiangsu tenure, he worked closely with Li Qiang. Before Jiangsu, he was sent to manage corruption scandals in Shanxi. From 1999 till his time in Shanxi he rose in Chongqing. Wu became a full Central Committee member in 2017.



**Shen Yiqin (谌贻琴)**, 63 years old, rose through the ranks in her native Guizhou province from a provincial Party School teacher to become governor and finally Party secretary of the province. Born and raised in Guizhou, Shen is the only provincial Party secretary other than Wu Zhenglong to lead their home province before taking new responsibilities elsewhere. Shen is the only female and only ethnic minority person in either the Politburo or State Council. She joined the Party's Central Committee in 2017.



**Qin Gang (秦刚)**, 56 years old, is Minister of Foreign Affairs and will work closely with Politburo member Wang Yi on foreign affairs matters. Qin has served more than three decades in the foreign ministry and prior to this post served as China's ambassador to the US, and before that as Vice Minister in charge of European affairs. Earlier in his career, Qin had multiple postings to the Chinese Embassy in the UK. He joined the Party's Central Committee last year.



# Driving Economic Growth

## Setting Growth Expectations

Beyond the national security objectives laid out at the 20<sup>th</sup> Party Congress, this year's gathering put the economy front and center, with outgoing Premier Li Keqiang describing economic stability and expanding consumption as essential.

The annual GDP growth target was set at around 5%, falling short of many analysts' expectations. This is the second time in a row that the government has set a lower target than the previous year and comes after the country missed its target for the first time in 2022 as Covid-19 and associated policy restrictions took their toll.

This year's target has been set below the economy's likely growth capacity and demonstrates a conservative approach that prioritizes stability in the face of headwinds.

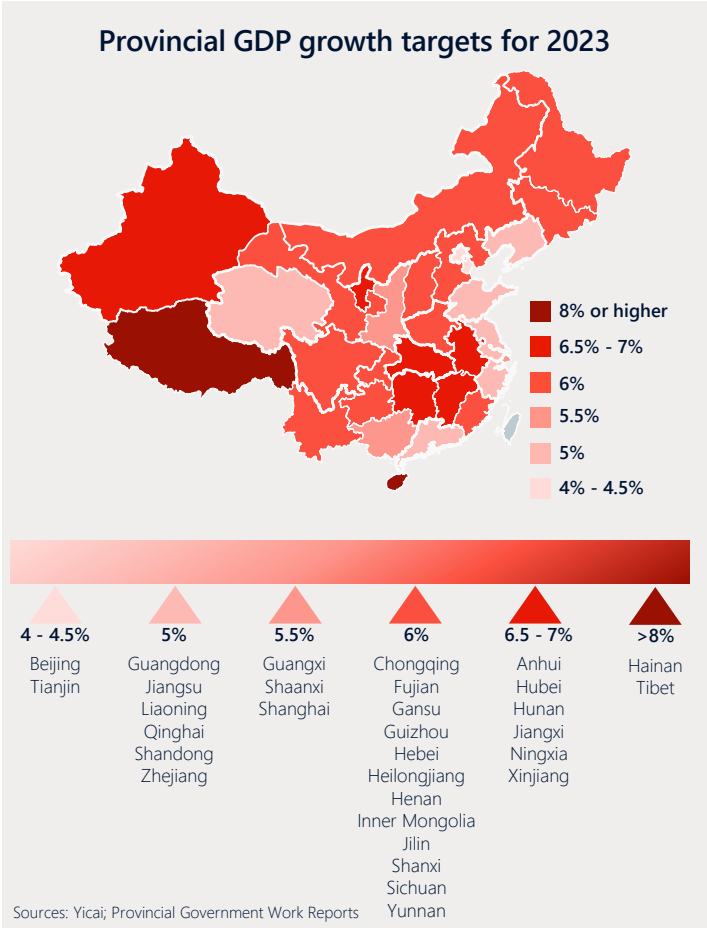
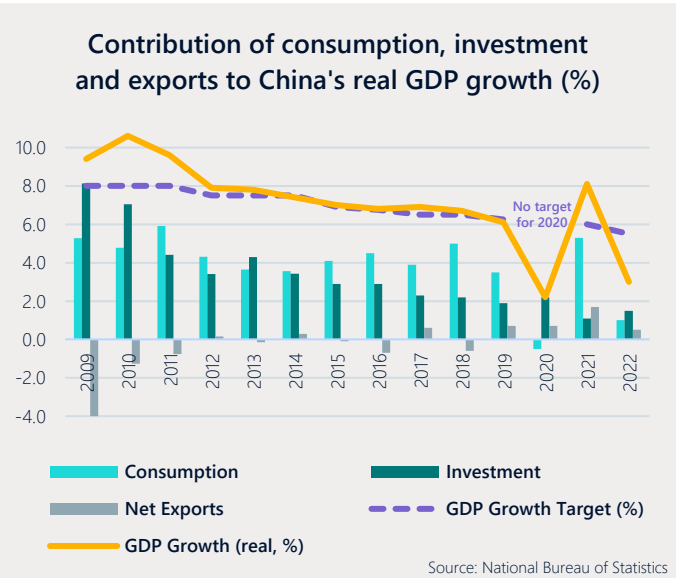
While it remains early days, data over the past two months has shown green shoots of recovery in consumer spending (see below) and purchasing manager indexes for the manufacturing and service sectors indicate activity picking up rapidly.

In the past decade, China's GDP has grown from USD 7.8 trillion to USD 18.3 trillion last year to account for 18.6% of the global economy. If China achieves its growth target for the year it will add the equivalent of Switzerland to the economy this year.

Businesses should consider not just national growth, but also changing needs, geopolitical realities and domestic regional differences. Provincial ambitions for the year ahead are captured in the chart (see right-hand side), with provincial targets representing aggregate growth of at least 5.6%.

## Consumption

For companies targeting the Chinese consumer, the move away from zero Covid and the reopening of China's borders has brought cautious optimism for the year ahead. Quarterly earnings released in recent weeks by global brands operating in China have captured a swift rebound in foot traffic, engagement, and sales. Brands that have built a clearly defined position in China and with Chinese consumers are seeing the greatest benefits.



The authorities have put significant emphasis on growing consumption, which accounted for 39.5% percent of the economy in 2021. There remains notable room for expansion in consumer spending, which drives a significant portion of GDP in developed countries. Consumer spending represents approx. 50% of German nominal GDP and almost 70% in the US, for example. The NDRC committed to introduce "measures to unlock consumption potential" and increase "people's spending power."

The authorities also put support behind new forms of digital retail and consumption, calling out "instant delivery online retail, live streaming e-commerce," new "immersive and interactive shopping experiences," and the broader platform economy.

These measures focus on providing consumers with more choice and opening new channels for consumption, rather than stimulating demand in the way that many Western governments did during the pandemic. While some local authorities are using coupons and other indirect measures to spur household spending, we do not expect Chinese policymakers to take more direct measures like cash transfers.

Increasing consumption in the longer run will require greater efforts to increase household incomes. The NDRC acknowledged in its report that personal income growth has slowed, and called to increase the pay of low and middle-income groups to ensure incomes grow in step with the economy, but that is not much of a commitment. We continue to await announcement of more specific measures to provide households with the cash they'll need for consumption to accelerate more quickly.

## Debt Risk and Local Governments

The meetings showed a clear appreciation of the financial risks facing the country. Among them are local government finances. The NDRC said local authorities are “facing prominent fiscal imbalances,” and that “debt risks from local governments’ financing platforms need to be addressed immediately.”

Many local governments are strapped for cash, after being forced to foot enormous bills for Covid-19 expenses including mass PCR testing and quarantine facilities. Guangdong province, for example, reported pandemic-related expenses of RMB 71.1 billion in 2022. Local revenues, much of which derive from land sales, have also fallen amid a crackdown on the real estate sector. With expenses mounting, many local governments have been forced to borrow significantly to make ends meet, amplifying debt concerns.

Resolving the imbalance between demands on local governments and limitations on their funding sources will continue to be a major economic challenge. The NDRC has committed to address local government risks and provide more fiscal resources. A real-estate tax would be one potential tool to address the issue, and was proposed during the legislative meetings in 2021, but appears unlikely in the near term as Beijing seeks to mitigate pressure on the housing market while defusing remaining risks among developers, who have begun to recover the past month with sales increasing for the first time in two years.

Risks in the financial sector have also driven a restructuring of government institutions in the space (see “Government Restructured” for details).

## Private and Foreign Business

Sentiment polling conducted across the international business community in China paints a somber picture. The latest survey released by the American Chamber of Commerce in China in early March indicated that while few firms intend to leave China, overwhelming pessimism is causing US businesses to deprioritize the country as an investment and business destination. Other Chambers’ polling prior to the reopening captured similar findings.

The past three years, and in particular the past year, has taken its toll on business in China. Beijing is keenly aware of market anxieties and acknowledged at the Two Sessions that a lack of enterprise confidence paired with sluggish market demand has weakened the economy. Over the past few months, our team in China has seen firsthand a significant leaning-in from the Chinese government to assuage the concerns of both domestic and foreign businesses.

Xi has gone on a charm offensive, telling the country’s top political advisory body that private businesses are “one of us,” and that the government should focus on solving their problems.

Over the past week, the standard refrains calling for expanding market access and continuing opening-up were made together with calls to “ensure national treatment for foreign funded companies,” “improve services for foreign-funded companies,” protect “the rights and interests of foreign investors” and ensure that “overseas companies feel free to make investment.”

For businesses that have a clear China strategy, this period presents a unique opportunity to make headway. For those that have faced market access barriers, this may present a time to break those barriers. Government stakeholders may show greater receptiveness if the right strategy is put forward.

Reform and opening-up will also continue, with updates to the negative list for foreign investment and catalogue of encouraged industries for foreign investment set to be released.

But despite positive signaling, no new policies were put forward specific to foreign investors. Rebuilding business confidence will require more than nice words, with clear, sustained action delivered over an extended period.

## Sectors Drawing Attention

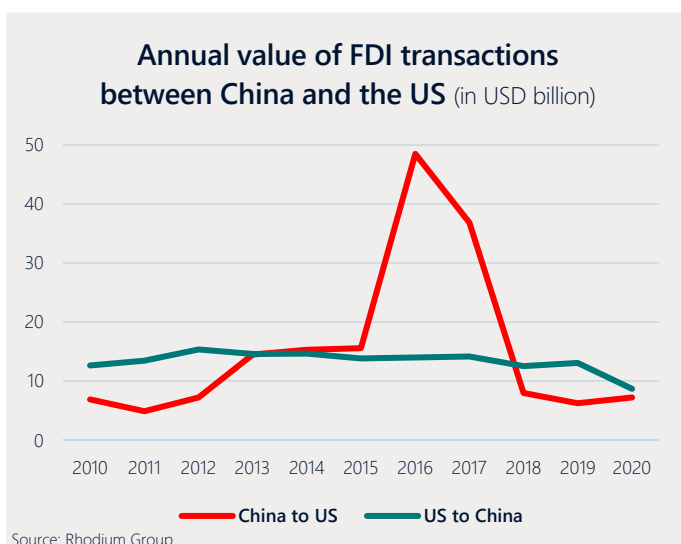
Beyond the restructuring’s impact on key sectors such as finance and tech, this year’s Two Sessions also highlighted key policy focal points in education, healthcare and energy, as well as on cross-cutting topics such as sustainability.

A long-standing focus on **healthcare reform** continued, with attention on channeling medical resources to the community level and addressing regional disparities. Indirectly responding to challenges during the Covid-19 response, the NDRC also spoke about enhancing drug distribution and delivery via major drug store chains and internet platforms. Expect continued focus on strengthening the medical system at each of its three tiers, from grassroots community hospitals and midsize county facilities up to the major urban healthcare hubs.

The **energy and petrochemical industry** also drew specific attention, with measures to optimize the industry layout and relocate chemical facilities close to urban zones, waterways, or other key environmental areas. The NDRC also prioritized “reform in the oil and gas sector” including integration and alignment of provincial and national networks.

On **education**, last October Xi stressed the importance of talent development in the service of national priorities like innovation and self-reliance. At the Two Sessions, authorities spoke about speeding up the “development of world-class universities,” ensuring more equitable distribution of educational resources across the country and improving affordability. We expect Party controls over content in education to tighten, with greater central oversight of teaching materials and integration of “political education curriculum across all levels, from elementary schools to universities.”

While China has slowed its phase-out of coal-fired power, the country remains committed to moving forward on broader sustainability goals, from pushing new energy vehicles to **green consumption**. Companies should build circular economy strategies into their operations and product lifecycles in China, both to align with state priorities and satisfy growing consumer expectations. Areas discussed at the meetings included recycling, reuse, excess packaging, and conservation of energy and natural resources.







## Securing the Nation

The Two Sessions reflected a sharpened focus on self-reliance and security. Authorities view a widening breadth of topics on the policy agenda through this lens, from energy and grain commodities to supply chains.

Officials are driving to self-sufficiency in each area amid growing concerns over China-US competition, geopolitical uncertainties, and implications of the ongoing Ukraine crisis.

At the conclusion of the meetings, Xi Jinping reminded lawmakers, “security is the foundation for development, and stability is the precondition for prosperity.”

### Defense

The military remains a key pillar of national security. In comments to military delegates, Xi said the country must “more quickly elevate the armed forces to world-class standards” and stressed the need to achieve the People’s Liberation Army’s centenary goals in 2027, a military modernization target set in 2020 which has been conflated by some observers as a new plan that accelerates ambitions to unify Taiwan.

In his outgoing address, Premier Li Keqiang prioritized boosting combat preparedness, training under combat conditions and enhancing military capabilities. China’s annual declared defense expenditure will rise by 7.2% to USD 225 billion in 2023. Li also said the country should “open a new chapter of unity” between the military, the government, and the people.

Xi, in separate remarks, called to enhance integrated strategic capabilities and balance economic development and defense needs in response to the evolving geopolitical environment.

Expansion of the military-civil fusion strategy will doubtless reinforce views in the West on the necessity of technological decoupling, while regional neighbors are also expanding their own military capabilities. In combination, the trend is one of increasing uncertainty and rising risk of conflict, whether intentional or not.

### Technology

Technological self-sufficiency is a long-standing national goal that has taken on renewed urgency in the face of Western policies designed to restrict China’s access to advanced technologies, including semiconductors and high-end chip making equipment. During a breakout session on March 6, Xi offered an unfiltered assessment, stating the nation’s continued development “depends on whether we can achieve self-reliance and strength in science and technology.”

Reiterating goals set at the 20<sup>th</sup> Party Congress in October, authorities said the country must “consolidate our leading position in industries where we excel, such as NEVs, 5G, and photovoltaics” and “accelerate R&D and application of cutting-edge technologies

such as AI, biomanufacturing, green and low-carbon technologies, and quantum computing,” among other areas.

The meetings did not roll out any new innovation slogans such as Indigenous Innovation or Made in China 2025.

Instead, the Party is just moving ahead. A prime example is the restructuring of sci-tech governance to foster R&D coordination (see “*Government Restructured*” for details), accompanied by an increase in spending on science and tech research by two percentage points this year.

### Natural Resources

Natural resources also received attention from leadership as a critical national security issue. Authorities will accelerate work to ensure access to mineral resources that are essential to current and future technologies and downstream products including iron ore, potassium, and lithium. These efforts will include both securing external supply and increasing domestic exploration to identify new deposits.

### Food Security

Securing food supply chains is another key priority in efforts to bolster national security. As outlined in the 14<sup>th</sup> Five-Year Plan, the government will work to strengthen food security and protect cultivated land. The meetings set targets to produce more than 650 million metric tons of grain for 2023 and increase overall capacity by 50 million metric tons, while developing the seed industry and enhancing agricultural infrastructure.

### Energy

China has ambitious plans to transition to green energy sources and develop next generation energy technologies, but widespread domestic power outages in 2021 and international energy crises amid the Ukraine conflict have spurred a renewed emphasis on supply stability.

The authorities called for intensified domestic oil and gas exploration and increased output to reduce reliance on imports. Domestic coal output increased last year 9% to reach 4.5 billion tons, with the government noting that coal’s “basic supporting role” will be strengthened, underscoring that coal will remain a key energy source for longer than previously anticipated.

While fossil fuels remain in China’s energy mix, the authorities did reiterate their commitment to climate goals, including energy conservation and carbon reduction targets. In 2023, China aims to reduce energy consumption per unit of GDP by “around 2%,” compared to a drop of 0.1% in 2022 from the previous year.



# Government Restructured

## Background

Since 1978, China has adjusted the structure of its government almost every five years, with key restructurings traditionally made during the first session of each five-year NPC administration cycle. This cycle's overhaul indicated a clear focus on challenges and priorities laid out at the 20<sup>th</sup> Party Congress last October: technological self-reliance, financial risk, national security, and social issues including rural economies and an aging society.

The quantum of the restructurings in this cycle was not as high as in some previous cycles, with the total number of government ministries and commissions remaining unchanged at 26, but the reforms are significant. In a notable departure from past practice, we understand that ministries impacted by this year's restructuring plan had little opportunity to participate in its creation, which was led by the Office of Central Comprehensively Deepening Reforms Commission. The office, headed by fourth-ranking Party Leader Wang Huning (王沪宁), worked with the Party body overseeing personnel to make executive decisions irrespective of ministries' vested interests.

More importantly, a number of as-yet unconfirmed Party commissions are expected to be introduced soon to coordinate work on the nation's most complex challenges. The result is ever stronger Party leadership over policy, both in terms of high-level strategy and on-the-ground implementation. This increasingly focuses the State Council on execution of Party decisions.

Below, we outline the key changes to state institutions.

## Revamp of Financial Regulators

Among the most significant structural reforms is an overhaul of the financial regulatory system, including creation of a new agency responsible for unified supervision of the sector and measures increasing central control of local-level enforcement. The restructuring further centralizes oversight after the 2018 consolidation of banking and insurance regulators, as increasingly interrelated risks require reinforcement of financial stability safeguards.

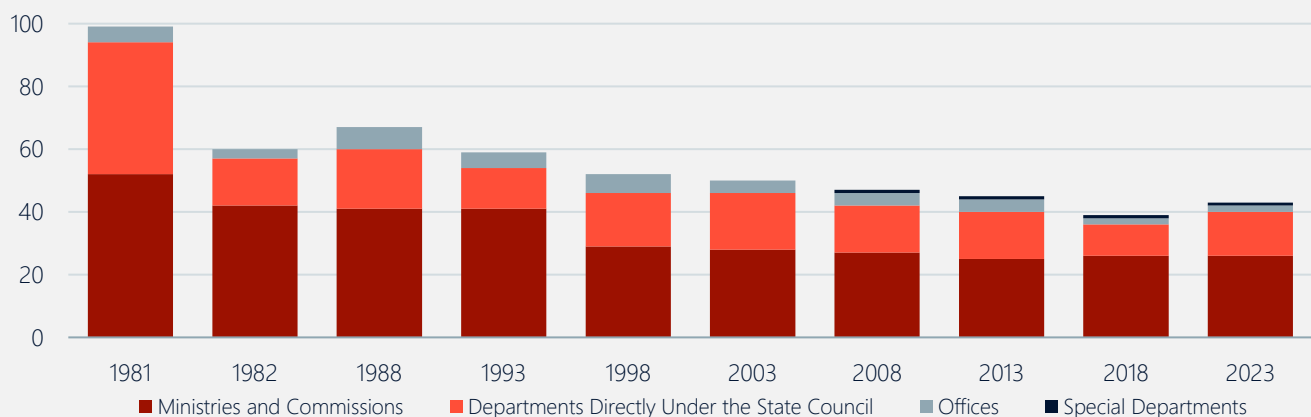
The new **National Financial Regulatory Administration** (NFRA) replaces and expands the former China Banking and Insurance Regulatory Commission and will be responsible for unified supervision of the entire financial sector, excluding securities. Its creation reflects ambition to address long-standing issues of regulatory arbitrage, strengthening risk management by filling jurisdictional gaps and reducing overlap. The NFRA will take over financial consumer protection and day-to-day supervision of financial holding companies from the People's Bank of China (PBOC), as well as investor protection from the China Securities Regulatory Commission (CSRC). As a result, the PBOC will focus more exclusively on macro issues and monetary policy, and the CSRC on securities issuance.

The **China Securities Regulatory Commission** has been elevated in stature and given responsibility for corporate bond issuance, taking over from the NDRC. The measure provides the CSRC with greater authority and further centralizes bond market supervision, following previous efforts to strengthen coordination and enforcement such as a 2018 measure calling for the PBOC and NDRC to work with the CSRC to address compliance violations. Notably, the change will require issuers to comply with stricter CSRC auditing rules, which experts suggest may prevent firms with hidden debt from further issuance. Some observers suggest this could also be a step towards eventual consolidation of the much larger interbank market under the CSRC, which for now remains under the PBOC's remit.

Meanwhile, local branches of the NFRA and CSRC will take over responsibility for grassroots-level supervision from local governments. The **People's Bank of China** will also be reorganized into a system of 31 provincial-level branches supplemented by five key city branches, abolishing county-level branches and replacing a previous system of regional branches supported by business management centers. These changes should increase professional expertise at the grassroots level and improve regulatory consistency, but they serve primarily to increase central control over local implementation. Strengthening oversight of local financial institutions is a key priority, given the major risks they have presented in recent years, including the first commercial bank bankruptcy in decades and concerns over the accuracy of local government financial vehicles' accounting.

## Change in Scale of Government Through the Reform Era

Number of ministries and commissions composing the State Council, as well as departments, offices, and special department under its direct stewardship.



Source: State Council



The restructuring will be accompanied by an overhaul of financial regulators' compensation structure, which will translate into wage cuts for many. This takes place against the backdrop of the Central Commission for Discipline Inspection's recent campaign to crack down on corruption and elitism in the financial sector. Given little prior knowledge of the restructuring plans, there will likely be period of wait-and-see at the working level as officials adapt to the changes.

In addition to these broad changes, authorities have also announced a suite of other adjustments, including separating management and ownership of state-owned capital associated with central financial regulators, with the relevant assets to be entrusted to third-party management firms. This change aims to ensure full independence of market operators from market regulators, while ensuring efficient and professional capital management.

The structural measures outlined above are also accompanied by fiscal reforms, adjustments to capital market rules, and tax changes supplementing efforts to address financial risks and spur development in prioritized areas.

## Science, Technology and the Innovation Ecosystem

Science and technology policymaking has also come under stronger central control, with a new Party commission set to lead inter-ministerial coordination of efforts to secure tech supply chains and deliver breakthroughs in core technologies. The new **Central Science and Technology Commission (CSTC)**, a Party institution, will sit atop a restructured **Ministry of Science and Technology (MOST)**, setting policy agendas for the ministry to implement.

The 20<sup>th</sup> Party Congress last October set technological self-reliance as a top priority, calling to employ a whole-of-state approach to accomplish the goal with coordinated efforts, from developing and attracting STEM talent to aligning research and optimizing capital allocation. The sci-tech restructuring reform package puts that into practice, strengthening inter-ministerial coordination and Party leadership with the CSTC in a central orchestrating role.

The measures aim to better focus efforts on developing strategic emerging industries and future technologies such as next-generation information technology, artificial intelligence, biotechnology, new energy, new materials, high-end equipment, and green industry. MOST will serve as the commission's arms and legs, with a more exclusive focus and greater powers to make strategic plans, coordinate national research resources, carry out institutional reforms and grow ecosystems.

Functions not central to this birds-eye-view mission have been transferred to other agencies, which will receive greater resources to promote innovation within their individual portfolios. High-tech industrial park development will go to the Ministry of Industry and Information Technology, for example, while agri-tech development will go to the Ministry of Agriculture and Rural Affairs, and attracting foreign talent will become the job of the Ministry of Human Resources and Social Security. MOST will also no longer directly participate in the evaluation and management of research funding, with several related institutions transferred out of its direct stewardship. The cumulative effect will be to refocus and reinvigorate MOST, which has overseen iconic science and technology initiatives like the 863 program but declined in influence over the last few years.

Intellectual property is another critical element to driving innovation, and the **China National Intellectual Property Administration** has been strengthened and now reports directly to the State Council. The office holds greater authority over creation,

use, protection, and management of intellectual property, and will guide enforcement by the State Administration for Market Regulation, which will continue to handle enforcement against patent and trademark infringement. While foreign business will welcome improved intellectual property protection, the move reflects the domestic priority to enhance local innovation more than anything else.

## Data Regulator to Oversee Digital Development

At the end of February, the State Council and Party Central Committee released a Digital China plan to coordinate construction of digital infrastructure and unlock economic value in the country's data resources. A new **National Data Bureau (NDB)** will oversee its execution, centralizing management and promotion of digital development. The NDB will absorb responsibilities currently spread across multiple agencies and oversee buildout of infrastructure like 5G networks and data centers, link data resources across sectors and departments, improve digital governance, and plan smart city construction.

This creation of a unified central planning agency will help resolve jurisdictional overlap surrounding the digital economy and improve coordination, putting more momentum behind efforts to make data a new economic driver. However, the bureau does not replace any existing regulatory bodies, and the Cyberspace Administration of China still retains control over the all-important data security and data privacy portfolio. For firms that had hoped for greater clarity on cross-border data issues and other data regulatory challenges, the bureau is not likely to provide solutions, though from a legal perspective, courts are working on developing legal frameworks surrounding data holding, processing and use rights.

## Consolidated Policymaking on Rural Development

Agriculture is another long-term priority for China, closely linked to an array of core political interests from food security to signature Xi initiatives like "common prosperity." The **Ministry of Agriculture and Rural Affairs** was set up during the 2018 reforms to run rural development, replacing the former Ministry of Agriculture and taking charge of a wide portfolio of related issues previously scattered across the government. This year, it gained a few more, including taking over the national Rural Technology Development Center from MOST, and as well as absorbing the former National Rural Revitalization Administration (NRRA).

MARA's integration of the two institutions reflects the increasing focus on "modernization" at the rural level, especially following the elimination of absolute poverty in 2020. MARA will now gain additional responsibility for making sure science and technology support rural development, including by promoting agricultural applications of new technologies and building out infrastructure such as cold chains. The decision to fold the NRRA into MARA after a notably short lifespan of just two years following its establishment in 2021 is also indicative of authorities' determination to improve administrative efficiency and coordination to achieve policy goals.

In MARA's case, this includes ensuring agricultural technology can help boost harvests and improve food security amid grain market turbulence following the invasion of Ukraine, contributing to "common prosperity" by improving rural livelihoods and preventing any backslides into poverty, and pushing rural development forward to fuel continued expansion of domestic demand.





# China and the World

## Background

Foreign policy did not feature prominently in the government's formal work reports at the Two Sessions, but was highly visible in meetings as Chinese leaders reflected on the deteriorating geopolitical environment.

During a breakout session with delegates on March 6, Xi made a rare direct reference to the US, stating that "Western countries led by the US have imposed all-round containment, encirclement and suppression against China," which has brought unprecedented challenges to China's development. He went on to call on the nation to fight the good fight and "dare to struggle" amidst domestic and geopolitical headwinds.

The direct reference to the US and the extremely strong tone is a significant change. The references to the US were broadcast on China's national evening news broadcast, sending a clear signal to the public. No longer "feeling the stones to cross the river," this year's work report described Xi as steering the country through "high winds and choppy waters."

## China-US

Official comments at the Two Sessions provided a somber assessment of US policy towards China. Speaking to reporters, Foreign Minister Qin Gang, who was ambassador to the US until last year, said that "no amount of guardrails can prevent derailing" of the relationship under continued US attacks, which will force conflict and confrontation.

At the first hearing of the new House Select Committee on China on February 28, US lawmakers described China as an "existential" threat. Any guarded optimism following Presidents Biden and Xi's November meeting in Bali has clearly evaporated, and de-escalation will require sustained effort on both sides of the relationship.

Outside of the bilateral relationship, China will continue seeking to present other countries with an alternative to the US foreign policy model, as demonstrated in its recent facilitation of Iran-Saudi Arabia rapprochement. Calling it "a victory for peace," Beijing said it "fully respects Middle Eastern countries as the masters of their own affairs...and will not build exclusive circles."

## Taiwan

Language surrounding Taiwan remained largely consistent with past meetings, if not more conciliatory, with leaders refraining from hardline statements. This year's event also saw a greater emphasis on advancing trade and cultural exchanges with the territory, and "contributing to the wellbeing of our Taiwan compatriots."

Qin acknowledged that "the Taiwan question is the bedrock of the political foundation of US-China relations," but blamed the US for Taiwan tensions and criticized the US as hypocritical for telling China not to provide weapons to Russia as it keeps selling arms to the island.

## One Country, Two Systems

At the 20<sup>th</sup> Party Congress last year, Xi celebrated "restoration of order" in Hong Kong and highlighted the importance of the One Country, Two Systems policy in ensuring "that the capitalist system and way of life remain unchanged in Hong Kong and Macao in the long run."

Over the past week, officials reaffirmed commitment to ensuring Hong Kong and Macao maintain a high degree of autonomy under the model, while being administered by "patriots." The NDRC stressed support for "Hong Kong's efforts to enhance its standing as an international financial, trade, and shipping center and to develop emerging industries."

We anticipate additional policy support for Hong Kong and Macao alongside efforts encouraging further integration of the SARs into the Guangdong-Hong Kong-Macao Greater Bay Area.

## Russia-Ukraine

International observers watched closely for signs of a firmer stance on the war in Ukraine, amid reports that China is considering supplying Russia with weapons, and that the US would consider imposing sanctions in response.

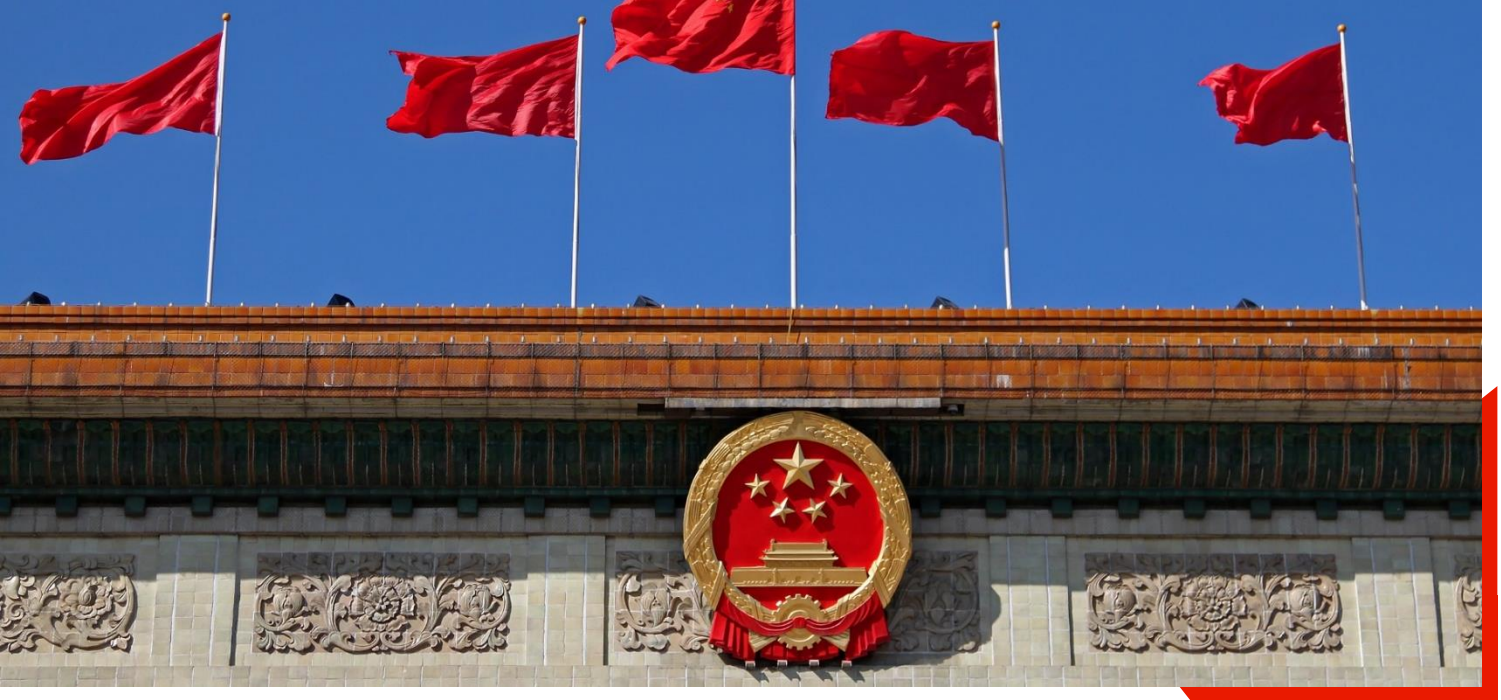
Foreign Minister Qin was careful not to indicate any closer alliance with Russia. He did not directly respond to a question on whether Xi will visit Russia, and described the relationship as "major-country relations featuring strategic trust and good neighborliness," a considerable rhetorical walk-back from the "no limits" partnership celebrated by Xi and Putin just 20 days before Russia invaded Ukraine.

Mounting pressure from the West is driving them closer, however, as the China-Russia relationship is grounded more in shared grievances with the West than common values. As Qin put it, "the more unstable the world becomes, the more imperative it is for China and Russia to steadily advance their relations."

## Belt and Road

This year marks the 10<sup>th</sup> anniversary of the Belt and Road Initiative (BRI). The infrastructure project has been recalibrated in recent years to focus more on quality than scale, partly to address concerns over debt sustainability, which have been further exacerbated by financial pressures stemming from Covid-19 disruptions.

At the Two Sessions, the NDRC called for "small but beautiful" development, outlining digital, healthcare, and green projects as focal points. Expect an increase in BRI engagement on those areas this year, as China prepares to host the third Belt and Road Forum.



# Two Sessions Backgrounder

## What are the Two Sessions?

The Two Sessions, or *lianghui* (两会) are the annual gatherings of the National People's Congress (全国人民代表大会) and the Chinese People's Political Consultative Conference (中国人民政治协商会议). Typically held during the first two weeks in March, this year's sessions took place from March 4 to 13.

## What is the NPC?

The National People's Congress (NPC) is China's highest legislative body and has sole responsibility for enacting legislation in the country. The full NPC meets once a year and enacts and amends basic laws relating to the Constitution, criminal offences, civil affairs, state organs and other relevant matters. When the NPC is not in session, the Standing Committee of the National People's Congress (全国人民代表大会常务委员会) is tasked with enacting and amending laws, except for basic laws which must be enacted by the NPC.

The NPC is also responsible for electing and appointing members to central state organs—including the Standing Committee of the NPC, the President of the People's Republic of China (currently Xi Jinping), and the Premier of the State Council (currently Li Qiang). Based on nominations by the Premier, the NPC is also responsible for appointing the vice premiers, state councilors, and ministers.

This year was the 1<sup>st</sup> Session of the 14<sup>th</sup> NPC. The 14<sup>th</sup> NPC will serve a five-year term.

## What is the CPPCC?

The Chinese People's Political Consultative Conference (CPPCC) is a political advisory body that consists of representatives from industry, academia, business, environment, politics, and other areas. The National Committee of the Chinese People's Political Consultative Conference (中国人民政治协商会议全国委员会) meets on an annual basis in parallel with the NPC.

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# Brunswick Group

## Brunswick is an advisory firm specializing in business-critical issues.

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## To continue the conversation

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