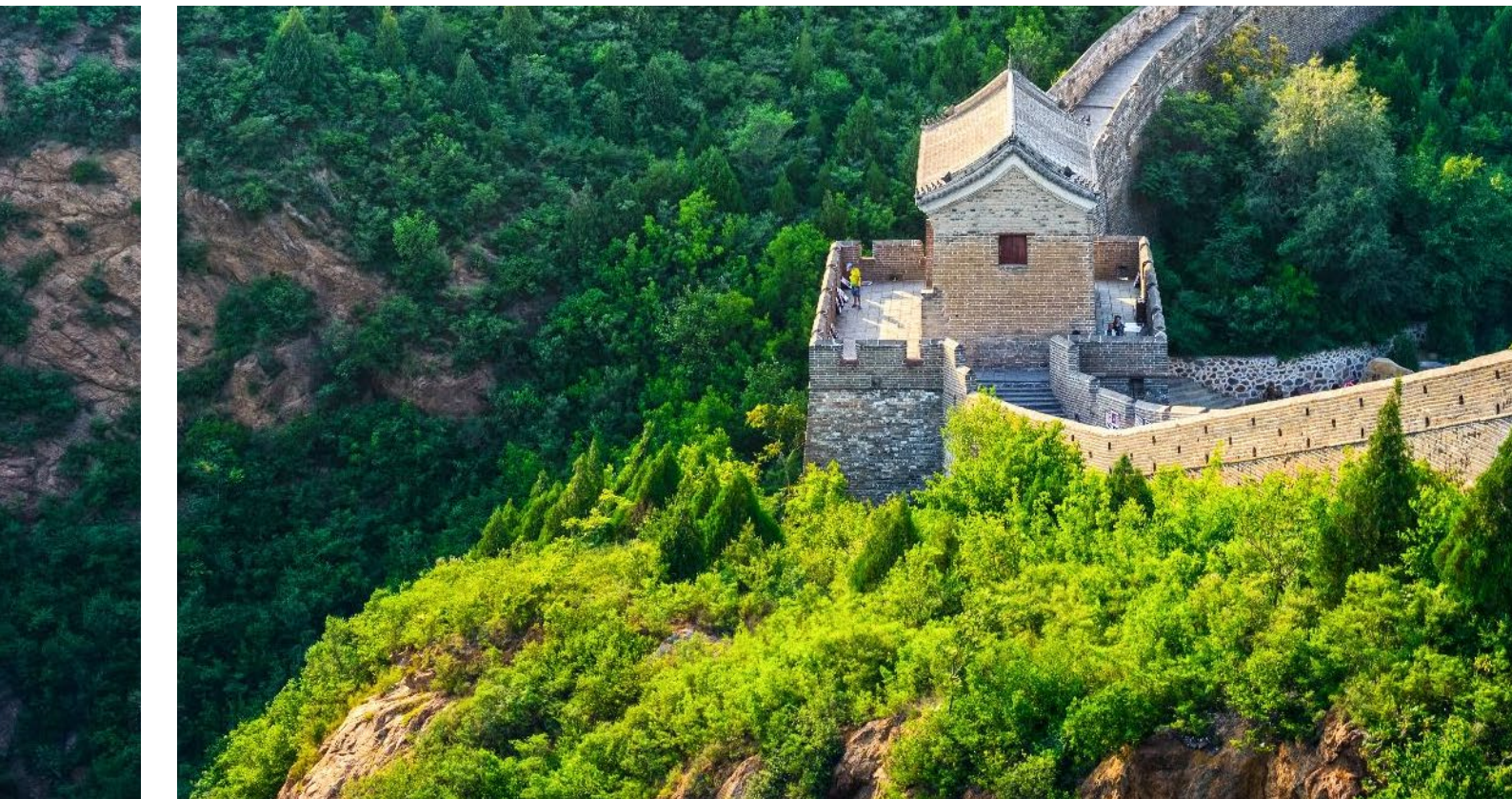


2023 Two Sessions
highlights China's
emphasis on
institutional reforms and
holistic development





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China's Two Sessions 2023, made up of simultaneous meetings by the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC), was held in Beijing following the election of members to the 14th NPC and CPPCC National Committee. Both meetings reviewed relevant reports and elected national leaders. The Chinese President, the Premier of the State Council, China's Central Government, and Chairmen of the country's top legislative and political advisory bodies, the NPC and CPPCC, all welcomed new leaders while several ministries also saw a change in leadership.

As the pandemic ended and the economy gradually recovered, China entered a new stage of development in the spring of 2023. This year's official GDP growth target is set at around 5% while the country pursues further reform and opening up. Institutional reforms to the Central Government and the State Council will greatly increase private and foreign-funded enterprises' confidence in the sustained development of the Chinese economy. The State Council institutional reform plan highlights the country's emphasis on technological innovation, financial regulation, and the digital economy. This will help promote the development of China's innovative economy, and create a more friendly external environment and efficient financing environment for enterprises engaged in innovation activities. At the same time, China will pay more attention to the development of the private economy and private enterprises, involved which are expected to reap the 'policy dividends' of the country's institutional reform and opening up in 2023.

What are the
highlights of the
Two Sessions?



Highlights of the NPC Standing Committee Work Report

Sessions of 14th NPC lasted eight and a half days, opening on the morning of 5 March and closing on the morning of 13 March. This marked the first time delegates of the 14th NPC met in Beijing following their election.

There are 2,977 representatives in the 14th NPC. There are 442 ethnic minority representatives, accounting for 14.85% of the total, with all 55 ethnic minorities in the country being represented. There are also 42 overseas Chinese representatives, and 790 female representatives, accounting for 26.54% of the total. 16.69% of the NPC is made up of 497 representatives for frontline workers and farmers.

The main agenda for the NPC included reviewing the Government Work Report, the draft amendment to the Legislation Law of the People's Republic of China, as well as several other reports, drafts, and resolutions. They also reviewed the State Council's institutional reform plan, and elected and appointed members of the state organs.

On 7 March, the Chairman of the 13th NPC Standing Committee, Li Zhanshu, presented the Work Report of the NPC Standing Committee to the 14th NPC, summarising the main achievements of 2022, and the past five years. In 2022, the NPC Standing Committee drafted five laws, amended nine laws, made four decisions on legal issues and major issues, and made one legal interpretation. The Committee also inspected the implementation of five laws, and appointed and dismissed 393 staff across state organs. Over the past five years, the NPC Standing Committee passed constitutional amendments, drafted 47 laws, amended 111 laws, made resolved 53 legal and major issues, and reviewed 19 legal and decision-making cases. They also legally appointed and dismissed 1,515 staff across state organs.

The work report proposes the following for 2023:

- Improve adherence to the Constitution and legislation. Promote the institutionalisation and standardisation of constitutional review, improve and strengthen the record review system, and maintain constitutional order of the special administrative regions as determined by the Constitution and the Basic Law.
- Enhance NPC oversight effectiveness. Improve supervisory work operations to achieve proper, effective, and legal oversight.
- Enhance the extent of representative work. Improve the mechanism for contacting Standing Committee representatives and strengthen contact between the representatives and the people.
- Carry out external exchanges of the NPC. Fully co-operate with the party and the state's diplomatic approach and engage in foreign affairs as assigned by the Central Government.
- Strengthen the self-construction of the Standing Committee. Learn, grasp, and implement the spirit of the 20th National Congress of the Communist Party of China.





Highlights of the CPPCC National Committee and the Work Report

The first session of the 14th National Committee of the CPPCC lasted seven and a half days, opening at the Great Hall of the People at 3 pm on 4 March and closing on the afternoon of 11 March. The conference consisted of an opening ceremony, a closing ceremony, two plenary sessions and eight group meetings.

The main agenda of the conference included: listening to and deliberating on the work report of the Standing Committee of the CPPCC National Committee, government work report, work proposals and other relevant reports; attending the first session of the 14th National People's Congress; reviewing and approving amendments to the Constitution of the CPPCC, political resolutions and work reports; and electing the chairman, vice-chairmen, secretary-general, and standing committee members of the 14th National Committee of the CPPCC.

On 4 March, during the opening ceremony, the Chairman of the 13th National Committee of the CPPCC, Wang Yang, reported on past work.

Over the last five years, the 13th National Committee of the CPPCC held over 100 special-purpose meetings, including thematic Standing Committee meetings, thematic consultations and bi-weekly consultation symposiums, to promote high-quality development, provide suggestions for the formulation and implementation of the 14th Five-Year Plan, and supervise accordingly. The Committee received a total of 29,323 proposals and upon review and acceptance, filed 23,818. By the end of February 2023, 99.8% of the proposals were processed. Many suggestions and recommendations put forward by Committee members were developed into policy options for the Party and the Government.

The CPPCC's consultation topics cover major issues concerning economic and social development, such as: constructing a new development pattern; advancing the real economy; promoting innovation; promoting sustainable development of the new energy vehicle industry; ensuring national food security; advancing the tough battle of pollution prevention and control; building a safer China; ensuring education satisfies the needs of the people; constructing the Grand Canal, China's cultural belt; and promoting the construction of overseas economic and trade co-operation zones. The topics also addressed practical issues related to the vital interests of the people – such as dealing with an ageing population, basic public cultural services in rural areas, food safety regulations for takeaway food – and the formulation, and revision of laws and regulations.

On the afternoon of 10 March, the 14th National Committee of the CPPCC held its third plenary session to elect the leaders of the 14th CPPCC National Committee. Wang Huning, a member of the Standing Committee of the Political Bureau of the Communist Party of China Central Committee, was elected as the Chairman of the National Committee of CPPCC, along with 23 CPPCC National Committee vice-chairpersons.

The average age of the newly elected Chairman and Vice Chairpersons of the CPPCC National Committee is 65.3. Among the Vice Chairpersons, 11 are members of the Communist Party of China, 12 are non-members, 4 are from ethnic minority groups and 4 are women. The average age of the newly elected Standing Committee is 60.8. In terms of demographics, 195 non-Communist Party members account for 65.2% of the Committee, while 32 are from ethnic minority groups and 48 are women.

Highlights of the Government Work Report

On 5 March, Premier Li Keqiang of the State Council presented his final government work report after serving as premier for 10 years, reviewing work accomplished in 2022 and the last five years and putting forward suggestions for the new Government in 2023.



The report stated that China's GDP reached 121 tn yuan, with an average annual growth rate of 5.2% over the past five years, adding nearly 7tn yuan per year. China achieved an average annual growth rate of 6.2% over the past ten years, achieving medium- to high-speed growth off a high base and moving towards high-quality development. The report highlighted that unbalanced and insufficient development in China still remains a prominent issue to resolve. The current scale of development will face many difficult challenges, such as:

- Increasing uncertainty in the external environment stemming from high global inflation, the weakened global economic and trade growth momentum, and increasing external pressure and containment;
- An unconsolidated foundation of domestic economic growth, along with insufficient demand, unstable private investment and expectations, arduous employment stability tasks and financial difficulties in some grassroots governments;
- Hidden risks in the real estate market as well as in some small and medium-sized financial institutions;
- Institutional and mechanism barriers to development, including: weak technological innovation capabilities; lagging progress in ecological environment protection; weak links in urban and rural infrastructure, such as disaster prevention and reduction; and areas of shortcoming in the improvement work for people's livelihood .



The report sets out the main development targets for 2023, including:

- GDP growth of around 5%. This target is considered relatively conservative given the low base last year. If there are no major unforeseen disruptions at home or abroad, China's economic growth in 2023 is expected to exceed 5%, and can potentially approach 6%.
- The creation of approximately 12mn new jobs in urban areas, with an urban surveyed unemployment rate of around 5.5%. It is estimated that there will be 11.58 million college graduates in 2023. A target like this, if attained, can basically ensure their employment.
- A consumer price index (CPI) increase of around 3%. In the context of high inflation in many countries, China will continue to face import inflation pressure in 2023. However, keeping the CPI at around 3% is a relatively feasible target as domestic consumption is set to further recover.
- Bringing the growth of residents' income on par with national economic growth. The three high-impact years of the pandemic was detrimental for economic growth and affected the actual income of some residents. Ensuring the growth of residents' income is key to promoting consumption and maintaining economic growth.
- Promoting stable, and high-quality imports and exports, while achieving a basic balance of international payments. During the pandemic, manufacturing activities in many countries were disrupted or affected, but China's manufacturing essentially remained stable. Therefore, imports and exports played a unique role in stabilising economic growth. However, as global economic growth is expected to be lower in 2023 than in 2022, weakening external demand will be the biggest challenge for China's imports and exports.
- Maintaining grain production at over 1.3tn jin (or 0.65 tn kg). The Russia-Ukraine conflict and climate change may continue to impact grain supply, as a populous country China's food security is extremely important.
- Continuing to reduce GDP per unit of energy use and major pollutant emissions. No specific targets have been set in regard to excessive control of energy consumption and pollutant emissions that might hinder the pace of economy recovery.

To achieve the aforementioned goals, the report proposes the following major policy measures:

1. Give priority to restoring and expanding consumption. This is crucial for improving China's economic landscape for consumers, investors, private entrepreneurs, and small and medium-sized merchants. If the Government issues consumption vouchers to low- and middle-income earners, it can not only stimulate consumption but also improve people's livelihoods.
2. Increase urban and rural income through multiple channels. Economic growth and stable increase of resident income can only be achieved when consumption is restored, creating a virtuous cycle for the economy.
3. Encourage the signing and construction of landmark foreign-invested projects. While many foreign-invested enterprises still have confidence in China's future economic development, geopolitical tensions, especially between China and the US, may lead to heightened risk cautiousness by some foreign invested funded enterprises when considering making additional investments in China.
4. Effectively prevent and resolve the risks of leading real estate enterprises. China should improve the asset-liability structure, prevent disorderly expansion and promote the stable development of the real estate industry. At the same time, the country needs to support the demand for both essential (basic) and improvement housing, and solve the housing problems of new urban residents and young people. Last year, China's economic growth rate declined due to COVID-19 prevention and control measures as well as macro-control of the real estate market. As long as the real estate market avoids excessive speculation and returns to a healthy path of growth, by mainly focusing on meeting the housing needs of residents, it is expected to remain stable in the future.



What are the
implications for
the economy and
businesses?



The deepening reform of the State Council institutions has confirmed China's long-term commitment to its reform and opening up in the future. This will increase the confidence private and foreign companies have in the sustainable and positive development of the Chinese economy.

Some of rapid policy changes in recent years, have impacted a few sectors of the business community, affecting the investment confidence for business expansion, these include COVID-19 prevention and control measures, anti-monopoly measures for internet platforms, measures preventing excessive capital expansion, the regulatory crackdown on extracurricular education and training institutions and real estate regulation.

In addition, last year Nancy Pelosi's, the then Speaker of the U.S. House of Representatives, visit to Taiwan, escalated and exacerbated tensions between the two nations (China and the U.S.). The Russia-Ukraine conflict caused many European countries to reassess their national security and become more concerned about the stability of the Taiwan Strait, affecting the development of China-EU relations.

The complex geopolitical environment has affected China's foreign policy, as well as its domestic economic policies, which have affected the confidence of the business community in China, especially private and foreign companies. The Central Government reform is expected to improve the efficiency of policy regulation, thereby boosting the confidence of the business community.

The State Council's institutional reform plan emphasises the importance of innovation in science and technology, financial regulation and the digital economy. This will promote the development of China's innovative economy, creating a more favourable external environment for enterprises engaged in innovation activities and an efficient financing environment.

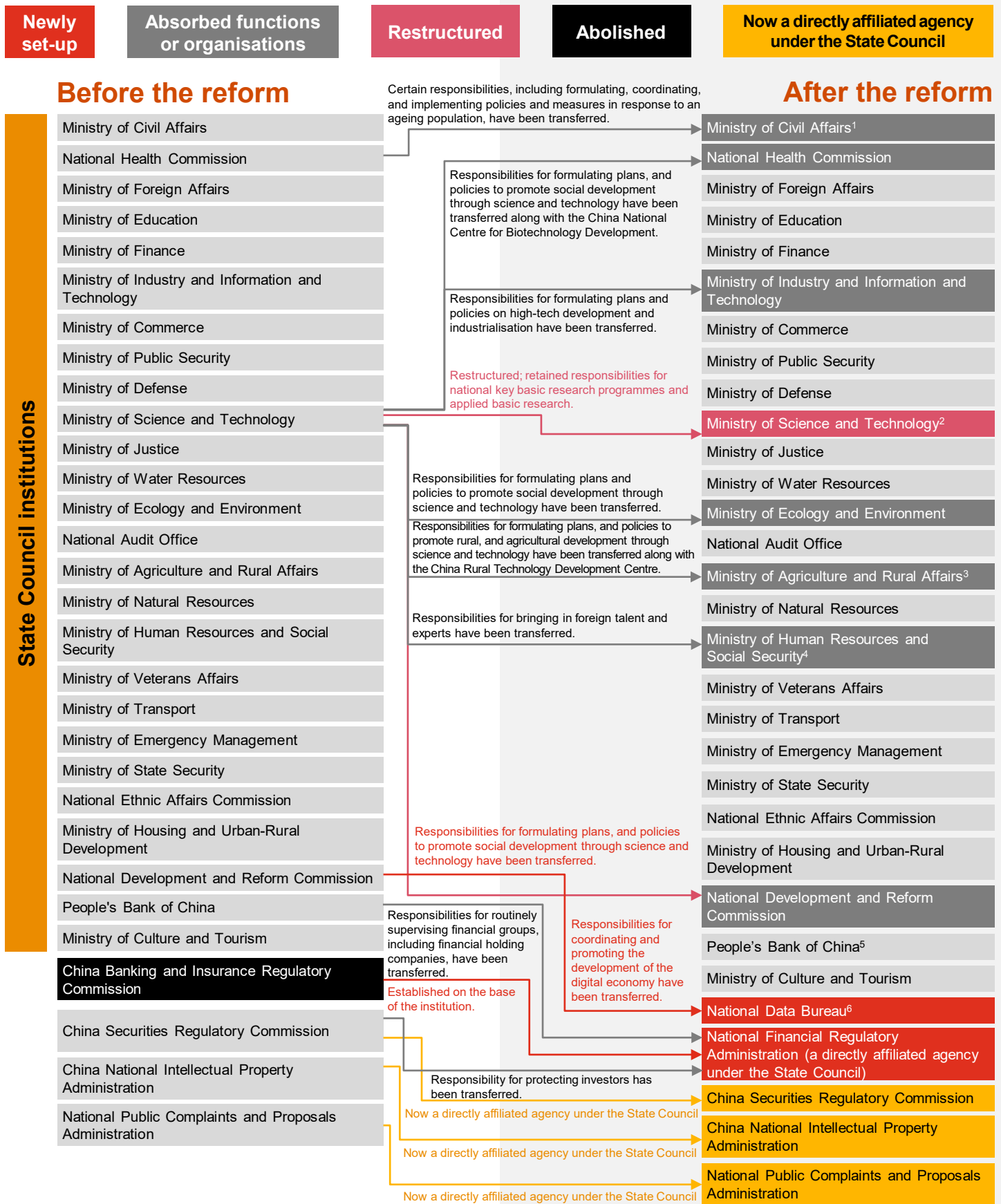
Specifically, the State Council's institutional reform plan primarily focuses on key areas such as financial regulation, data management, science and technology, intellectual property rights, rural revitalisation and elderly care.

The reform measures include:

- Rebuilding the Ministry of Science and Technology in order to reform the distribution and use of national funds. This streamlines the leadership and management system of science and technology, co-ordinates scientific and technological forces to tackle key core technologies, and accelerates the realisation of high-level science and technology self-reliance.

China is taking steps to accelerate its self-reliance because of the U.S. restrictions in some of the high-tech field. For the business community, especially high-tech enterprises, this is both a challenge and an opportunity. On the one hand, domestic tech companies have to deal with the potential risks caused by decoupling (between China and the U.S.) on some high-tech sectors. On the other hand, national policies will strongly support local enterprises to become independent in core technologies.

A guide to China's 2023 State Council institutional reform



1 The work of the National Working Committee on Aging has been transferred to the Ministry of Civil Affairs.
 2 The Administrative Centre for China's Agenda 21 and the Ministry of Science and Technology's High-Tech Research and Development Centre have been transferred to the National Natural Science Foundation of China, which is still under the Ministry. The State Administration of Foreign Experts Affairs is no longer affiliated under the Ministry.
 3 Certain responsibilities of the National Rural Revitalisation Administration will be taken over by the Ministry of Agriculture and Rural Affairs. The Administration will be formally inaugurated by the Ministry. No separate agency will be retained.
 4 The State Administration of Foreign Experts Affairs will be formally inaugurated by the Ministry of Human Resources and Social Security.
 5 Advance reform of the branches of the People's Bank of China.
 6 Certain responsibilities of the Office of the Central Cyberspace Affairs Commission have been transferred to the National Data Administration.

Source: Xinhua News Agency

- Absorbing the China Banking and Insurance Regulatory Commission, the National Financial Regulatory Administration will be established to bring the supervision of all types of financial activities under its umbrella and deepen the reform of the local financial regulatory system. To strengthen capital market regulations, the China Securities Regulatory Commission will shift from its current status as a directly affiliated institution (直属事业单位 Zhishu Shiye Danwei) of the State Council to a directly affiliated agency (直属机构 Zhishu Jigou), escalating its influence and authority. The divisions of the People's Bank of China will also be reformed. At the same time, the management system of state-owned financial capital will be improved, and the unified and standardised management of financial management department staff strengthened.

For a long time, the pace of China's financial reform and opening-up has been relatively slow and cautious due to the risk of losing control. The recent collapse of banks in the US and Europe reminded us that financial risks are everywhere. The impact of the 2008 financial crisis on the global economy remains in the forefront of our minds. In this context, in recent years, China has been emphasising the need to prevent systemic financial risks. After reworking its financial regulatory system, China is expected to usher in financial reform which will enable a more reasonable allocation of financial resources among state-owned enterprises, private enterprises, foreign-invested enterprises, local governments and residents.

- Establishing a National Data Bureau to be managed by the National Development and Reform Commission to strengthen the management, development, and utilisation of data. The Bureau's main responsibilities include:

concentrating on the integration, sharing, and development and utilisation of data resources in each department; co-ordinating the construction of the data basic system; and the overall planning and promotion of constructing a digital China with a digital economy and digital society. While China's digital economy strengthens, the current regulatory mechanism is lags; so the establishment of a National Data Bureau will improve the regulatory environment.

- Improving the intellectual property rights management system. This includes comprehensively improving the level of intellectual property creation, utilisation, protection, management and services. At the same time, the status of the National Intellectual Property Administration, managed by the State Administration for Market Regulation, will shift to become a directly affiliated agency of the State Council, thereby escalating its influence and authority. Strict implementation of intellectual property protection will promote the development of the innovation economy.
- Improving the elderly care system. This includes, but is not limited to, developing the pension industry; promoting the realisation of basic pension services for all elderly people; and transferring the responsibility of formulating and co-ordinating the implementation of policies and measures to cope with the ageing population from the National Health Commission to the National Committee on Ageing.

In addition to the government's efforts to ensure its public welfare initiatives, more enterprises need to respond to population ageing, providing more development opportunities for the elderly care industry.

Overall, institutional reform will create a more efficient and comprehensive regulatory system, improve the investment environment, and promote the development of China's economy in key areas.



The speeches of the core leaders and other representatives during the Two Sessions indicate China's increasing emphasis on the development of the private economy and private enterprises.

With heightened priority, in 2023, the private economy and private enterprises are expected to enjoy more 'policy dividends' from reform and opening up.

During the Two Sessions, President Xi Jinping emphasised the need to: optimise the environment for private enterprises to develop; remove institutional barriers that hinder fair participation of private enterprises in market competition; protect the property rights as well as the rights and interests of private enterprises and entrepreneurs in accordance with the law; incorporate the equal treatment requirements for state-owned and private enterprises into the system and law. The support for the development, and growth of the private economy and private enterprises will boost both market expectations and confidence. Additional measures will also be taken to support the development of micro- and small-enterprises and individual businesses, and to empower internet platform enterprises in creating employment, expanding consumption and international competition.

In addition, the new Premier, Li Qiang, in a press conference after the Two Sessions, stated that he has been working in regions where the private economy is relatively developed and often has opportunities to communicate with private entrepreneurs. With this experience, he has a good understanding of their expectations and concerns regarding development. Li Qiang urged leaders at all levels to genuinely care for and serve private enterprises, build a close and clear relationship between the Government and businesses, and promote a society that respects entrepreneurs and business owners.

The importance of the private economy within China's overall economy can be demonstrated its contributions:

- the private economy makes up over 50% of the national fiscal revenue;
- contribution to enterprise technological innovation and new products makes up over 70%;
- contributions to GDP, fixed asset investment, and foreign direct investment all make up over 60%;
- contribution to urban employment exceeds 80%;
- contribution to new employment exceeds 90%.

Considering this, China will gradually establish a more matured market-oriented economic system as the country further develops its private economy. With more reform and opening-up policies, state-owned enterprises, foreign-invested enterprises and private enterprises are expected to work together to forge a benign yet fair competition environment in the future.



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