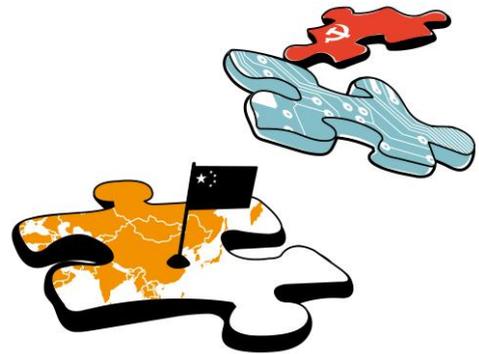


MARCH 16, 2023

# MERICs

## China Essentials

Special issue:  
National People's Congress Digest



### CONTENTS

TOP STORY .....	2
NPC confirms a government steeled for competition with the US.....	2
METRIX.....	3
TOPICS.....	3
MERICs Top 6: Institutional restructuring announced at the NPC .....	3
Legislation: NPC ties law-making more closely to CCP agenda, legislation law .....	4
Economy: NPC messaging pushes business confidence but also sets boundaries.....	5
Foreign policy: Beijing signals readiness for great power competition.....	6
Innovation: Institutional reshuffle to generate science and tech breakthroughs.....	7
MERICs CHINA DIGEST.....	8

## TOP STORY

### NPC confirms a government steeled for competition with the US

This year's National People's Congress (NPC) set the points for more open great power competition with the United States as it confirmed Xi Jinping for a third term as President of the People's Republic of China. Having spent a decade shoring up his hegemony over the Chinese Communist Party (CCP) and the Party's over the country, Xi had the NPC rubber-stamp personnel choices and adjustments to the party-state structure so that China can reduce dependencies on other countries and better assert itself internationally.

It was a tacit admission that China now takes as given friction with the US – over global power and influence as well as security concerns in military and non-military areas like energy – and the need for a new balance between globalized supply chains and less dependency on other countries in critical technologies.

Installing new top government officials that support and have the skills to implement his agenda, Xi completed the personnel reshuffle he had begun at the 20<sup>th</sup> Party Congress last fall. The world will now watch to see whether Xi gives trusted lieutenants any freedom to set their own priorities.

Premier Li Qiang, a Xi loyalist, used his first speech in his new office to voice business-friendly sentiments, warn against overhyping US-Chinese decoupling, and signal a shift to “high-quality development” (as opposed to high-speed growth) and strong support for science and technology. Optimists say Xi will give him room to maneuver, while skeptics see Li as business-friendly cover for a president intent on prioritizing politics and ideology over the economy.

All leadership posts in the central CCP and state leadership are now filled by people Xi trusts, including one solitary woman, Shen Yiqin, who was made a State Councilor in China's cabinet. The appointments further integrate state office with the Xi-dominated CCP: Leading state officials are party cadres first and only Premier, a State Councilor, the chairman of the NPC and so on after that.

**MERICS analysis:** “For Xi, the NPC marked the beginning of a new five-year term in which he holds all the reigns – he controls the agenda, key people and institutions,” says **Nis Grünberg**, MERICS Lead Analyst. “Xi is adamant about making China strong and globally influential again. But his third term will be defined by the tension between this vision, and the determination of the US to keep China from rising to become a global peer.”

#### Media coverage and sources:

- NPC Observer: [A Guide to China's 2023 State Council Restructuring](#)
- Reuters: [Factbox: Key takeaways from China's annual NPC parliamentary meeting](#)
- Xinhua: [List of key officials of China's State Council-Xinhua](#)

## METRIX

# 48,600,000,000

This is the number of terabytes of data China will generate by 2025, according to a study by the International Data Corporation and Seagate. To better manage these billions of terabytes (or 48.6 zettabytes) of information that constitute the country's data market, the NPC rubber-stamped the creation of the National Data Administration under the authority of the National Development and Reform Commission. The new body is meant to spur the digital economy as well as digital government and public services by promoting the opening-up, sharing and utilization of data resources. (Source: [CNBC](#))

## TOPICS

### MERICS Top 6: Institutional restructuring announced at the NPC

In addition to the personnel decisions, this year's congress announced the "State Council Institutional Reform Plan" (国务院机构改革方案). It foresees the following major changes:

1. **The Ministry of Science and Technology (MOST) is shedding a number of non-core units "to further streamline leadership and management of China's science and technology system"**, as the reform plan says. For example, the China Rural Technology Center will become part of the Ministry of Agriculture and Rural Affairs. At the same time, MOST will take charge of day-to-day management of the newly established Central Science and Technology Commission tasked with coordinating national science and technology development (see story below).
2. **The National Financial Regulatory Administration is the new financial regulator.** Directly under the State Council, the administration will replace the China Banking and Insurance Regulatory Commission as the country's central regulator of banks and insurers, although it will not have oversight over securities.
3. **The China Securities Regulatory Commission will be upgraded from a public service organ to a fully-fledged administration under the State Council, giving it more direct power.** The step is meant to ensure more streamlined decision-making in creating and enforcing rules that govern the securities industry.

4. **The founding of the National Data Administration is an important step towards building a more data-driven economy.** China wants to centralize what is currently a fragmented and patchworked system. Under the auspices of the National Development and Reform Commission (NDRC), China's main economic-planning institution, the new unit is meant to "coordinate and promote the development of basic data systems" and "coordinate the integrated sharing, development, and use of data resources". The Cyberspace Administration of China (CAC) will remain in charge of safeguarding data protection and security.
5. **The China National Intellectual Property Administration has been elevated to become an agency directly under the control of the State Council** (instead of the State Administration for Market Regulation). The upgrade in administrative rank is meant to give the unit more power to craft and implement regulation.
6. The **National Public Complaints and Proposals Administration** is moved from the purview of the General Office of the State Council to being an organization **directly under the control of the State Council**. It will be interesting to see how open for input from the public the new government will prove to be.

### **Legislation: NPC ties law-making more closely to CCP agenda, legislation law**

Aside from a number of administrative reforms, the NPC revised China's Legislation Law, which regulates the country's lawmaking and review powers. The changes are part of Xi's efforts to expand and modernize China's legal code in step with the country's fast-paced social, economic and technological development. The revision introduces some practical steps to speed up legislation and ensure the coherence of China's quickly growing body of laws and regulations. But amendments also tie law-making at central and local levels of government even more closely to the CCP's political agenda.

Some of the revisions foster a more standardized development of China's legal code:

- The mandate of the Constitution and Law Committee of the NPC to assess the constitutionality and legality of new and existing legislation has been broadened. To avoid conflicting norms, potential issues should be considered early on and throughout the law-making process.
- Municipal-level legislatures have been given a more narrowly defined task list to help promote "high quality development". They are meant to focus on issues like grassroots social governance, and environmental affairs. The move partially reigns in local law-making powers which were expanded in 2015.

But other amendments also increase political flexibility and allow quick responses where the leadership deems necessary:

- The NPC Standing Committee has been granted new emergency lawmaking powers which allow the 175-member permanent assembly to adopt a bill after a single deliberation (and no longer a minimum of two rounds).
- The NPC and its Standing Committee have been given expanded powers to exempt certain pilot projects and regions from compliance with existing laws for “a certain time and scope”, to grant policymakers room for experimentation and reform.
- The State Supervision Commission, part of the CCP’s anti-corruption and watchdog, has been granted new rights to make regulation. The body and will certainly use it to enforce political discipline in party and state ranks.

**MERICS analysis:** “The new emphasis on constitutionality and legality signals greater attention on the standardization of lawmaking. But it also boosts the CCP’s claim to set the legislative agenda,” says MERICS Head of Program Politics and Society **Katja Drinhausen**. “The 2018 constitutional amendments made party leadership the overriding principle. Hence, implementing the will of the party is constitutional. The new article 8 of the Legislation Law requires that all legislation “advocate the socialist core values”.

**Media coverage and sources:**

- Reuters: [China's parliament approves changes to speed up 'emergency' laws](#)
- NPC Observer: [NPC 2023: Proposed Amendments to China's “Statutory Constitution” of Lawmaking](#)

**Economy: NPC messaging pushes business confidence but also sets boundaries**

The tone on China’s economic agenda was decidedly soft and pro-business throughout the Two Sessions. Notably, the recently confirmed new premier, Li Qiang, gave an upbeat press conference to foreign and local reporters, expressing confidence that China can handle current challenges and that the private sector can expect strong support and a level playing field.

Institutional reforms on the economic side saw some strengthening of the National Development and Reform Commission (NDRC), the economy’s central planner, and a significant reshuffling of financial institutions. But even that was softened by the unexpected continuation of the current leaders of the People’s Bank of China (PBOC) and the Ministry of Finance who have been comparatively pro-business and non-ideological in previous years.

This pro-business signaling cannot be divorced from the broader context. The elevation of the Ministry of Science and Technology (MOST) centers technological self-reliance in the party state’s agenda, which was echoed throughout the event in comments from top leaders. This sends a clear signal for what top leadership want – to close the tech gap with the US and others.

Xi made this very clear in a meeting of Jiangsu delegates: he interrupted a delegate who runs the Xuzhou Construction Machinery Group to ask if the chips in the company’s cranes

all were made domestically. Similarly, Xi also reminded everyone of the importance of civil-military fusion in remarks to delegates of the People's Liberation Army and the People's Armed Police.

**MERICS analysis:** "Beijing will make space for the private sector to play its role in development and growth, but firms must also play their role in helping achieve tech self-reliance," said MERICS Senior Analyst **Jacob Gunter**. "That's still a somewhat toned-down message compared to 2020-2022, when the private sector took quite a few hits. This softer, yet still firm tone will help boost confidence for now, while the Third Plenum at the end of the year may be where we see more of Xi's economic ideology come into play."

**Media coverage and sources:**

- SCMP: [‘Are your chips made locally?’ Xi Jinping prods construction vehicle maker about semiconductors amid self-sufficiency push](#)
- Business Insider: [Xi Jinping wants China's army to work closely with the country's tech giants, further blurring the lines between the military and civilian sectors](#)
- Shanghai Eye: [\[FULL\] China's new Premier Li Qiang takes questions from the media](#)

**Foreign policy: Beijing signals readiness for great power competition**

Events at and around this year's NPC sent three clear messages regarding China's foreign policy trajectory: one, this is a much more outward-looking Chinese leadership, which means tackling the country's worsening international environment will be a priority. Two, competition with the United States will continue to shape Beijing's agenda for the next five years; and three, Beijing wants to make clear that there are alternatives to Washington when it comes to constructive diplomacy on the world stage.

Qin Gang, China's former ambassador to the US, continued his fast ascent in the machinery of state back at home. The recently appointed Minister of Foreign Affairs was also made a State Councilor in China's highest administrative body. While Xi Jinping in an unusually explicit way accused the US of leading Western countries in containing China, Qin warned conflict between the two countries would be inevitable unless the US "hits the brakes" on the "wrongheaded" path it is currently heading down.

China's defense and security remain a top priority. The 2023 budget plan outlined a 7.2 percent rise in the military budget for 2023, in line with recent trends and in spite of the country's current economic difficulties. Li Shangfu was confirmed as defense minister. A general in the People's Liberation Army (PLA), Li has been barred from the US since 2018 for his role in buying Russian weapons. His appointment signals Beijing is willing to sacrifice already limited military dialogue if the sanctions remain in place.

In another move highlighting its push for a bigger international role, Beijing brokered a pact between Iran and Saudi Arabia to reestablish diplomatic ties. The move could help calm tensions in the Middle East. But the timing of the announcement – it came during the NPC – was also a message to the international community: China is a force for peace, and its diplomacy can bring about constructive agreements – unlike that of the US.

**MERICS analysis:** “The NPC has shown that we can expect China to continue with its assertive diplomatic approach in the face of growing international challenges,” says **Helena Legarda**, Lead Analyst at MERICS. “Deng Xiaoping’s maxim about China ‘hiding and biding’ has been shelved – the new mantra is ‘struggle’. Regardless of how we may want to call it, ‘wolf warrior diplomacy’ does not seem to be going out of style.”

**Media coverage and sources:**

- SCMP: [Qin Gang named state councilor in latest move marking foreign minister’s rapid rise](#)
- People’s Daily (CN): [秦刚谈中美关系：希望美方消除战略焦虑 摒弃冷战思维](#) (Qin Gang on U.S.-China relations: I hope the US side eliminates strategic anxiety and discards Cold War mentality)
- New York Times: [Chinese-Brokered Deal Upends Mideast Diplomacy and Challenges U.S.](#)

**Innovation: Institutional reshuffle to generate science and tech breakthroughs**

China is strengthening the oversight and policy role of the Ministry of Science and Technology (MoST), while passing project administration and funds distribution on to other ministries. A revamped Central Science and Technology Commission under the Communist Party will provide a direct link to the central leadership. MoST will retain responsibility for the largest, most fundamental projects in core sectors like semiconductors, aerospace and new materials. Responsibility for high-tech development zones will go to the Ministry of Industry and Information Technology (MIIT), while the respective sectoral bodies will be responsible for agricultural and healthcare research.

These changes signal a larger role for the MoST in resolving bottlenecks in technology development. The ministry was already reformed five years ago, but Chinese commentators at Caixin, a leading financial online magazine, say more changes were required as global circumstances have shifted profoundly since then. Five years ago, the goal was to become better integrated into global research networks and benefit from international technology transfer. That path now looks increasingly unreliable, they argue.

The reorganization also reflects growing great power competition and the decoupling of China’s economy with trading partners in the West. Commentators in mainstream investigative media like The Paper call on China to do more early-phase research and, most importantly, tackle bottlenecks with a “whole of nation system”. These reforms are meant to lay the groundwork for this approach. Commentators consistently frame the MoST’s shedding of responsibilities as an upgrade of its role and responsibilities.

**MERICS analysis:** “A division of labor may reduce conflicts of interest. However, it is unclear how much this restructuring will help China achieve the breakthroughs in science and technology it wants,” says **Antonia Hmaid**, MERICS Analyst. “While it strengthens top-level design in key tech areas, it introduces fragmentation into other parts of the

system, such as commercializing research results. For instance, high-tech zones no longer fall under the MoST, even if they have been key to China's progress in science and technology. A breakthrough in semiconductors, for example, cannot happen in a vacuum, it needs to be commercialized with a robust set of suppliers."

**Media coverage and sources:**

- The Paper (CN): [重组科技部，发挥“新型举国体制”优势](#) (Re-structuring the MoSt realizes the full advantages of the "new whole-of-nation system")
- Caixin (CN): [科技部重组，不再参与具体科研项目评审和管理，有何深意？-知识分子的财新博客](#) (MoST re-structuring, it's not supposed to do program administration anymore, what does this mean?)
- Sina.com (CN): [两会观察 | 成立科技委，重组科技部，科技体制新顶层设计有何深意？ | 科技部 | 全国两会 | 新浪科技](#) (Two sessions: Creating the Central Science and Technology Commission, reorganizing MoST, what does the new top-level design of the science and tech system mean?)

## MERICS CHINA DIGEST

### [China's Xi plans to speak with Zelensky for first time since Ukraine war broke out \(WSJ\)](#)

China's party and state leader Xi Jinping will be travelling to Moscow to meet with Russian president Vladimir Putin next week and also plans to speak with Ukrainian President Volodymyr Zelensky for the first time since Russia's invasion in Ukraine, according to media reports. (23/03/13)

### [1,100 scientists and students barred from UK amid China crackdown \(The Guardian\)](#)

The British Guardian reports that more than 1,000 scientists and postgraduate students were barred from working in the UK last year on national security grounds, up from just 128 in 2020. The sharp increase follows a hardening of London's stance on research collaboration with China. While there was no breakdown by nationality provided, the paper assumes that Chinese academics account for a majority of those denied clearance. (23/03/15)

### [Germany planning to ban Huawei, ZTE from parts of 5G networks -paper \(Reuters\)](#)

Berlin is planning on forbidding telecoms operators from using certain components from Chinese telecom firms Huawei and ZTE in their 5G networks, according to Zeit Online reports from earlier this month. The ban could include components already built into the networks (23/03/06)

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