

# TWO SESSIONS 2023

# KEY TAKEAWAYS AND IMPLICATIONS FOR BUSINESS STRATEGIES

Ogilvy



From March 5<sup>th</sup> to 13<sup>th</sup>, 2023, the much anticipated “Two Sessions” (Lianghui) meetings, consisting of the 14<sup>th</sup> National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) were held at the Great Hall of the People in Beijing bringing together more than 2,000 delegates and representatives. This year has seen the announcement of new appointees to top government jobs in the wake of a major leadership reshuffle at last year's Communist Party Congress and the unveiling of the government's policy agenda to recover its social and economic development following the end to its three-year-long strict Zero-Covid policies. Interest is not only focused on Covid recovery plans but also on China's broader political agenda under this new leadership.

With this paper, the Policy and Public Affairs team at Ogilvy Public Relations hopes to help clients better understand this emerging agenda and the topics under discussion at the Lianghui. We also provide advice on how companies should orient their business operations in the coming years in China.



KEY

TAKEAWAYS





- **Outgoing Premier's Government Working Report**

At every Lianghui, the Premier delivers the Government Working Report to all delegates at the opening session. This year Li Keqiang's report had special significance as this was the last Work Report that he would present as Premier. His speech received a 37-second long ovation from over 5,000 delegates in the hall. Being a farewell report, the speech was short and condensed, delivered in less than an hour. 70% of his time was spent recapping achievements made in the last 5 years during his term and outlining the major social and economic development targets for the coming year, the remaining 30% of his time was spent on specific economic policy recommendations for 2023.

This split of time revealed the subtext that it is a new administration's turn to take responsibility for the nation's economic targets. 68-year-old Premier Li step down was not a surprise, he was not included in the Party's new Central Committee announced last Autumn. With a Ph.D in Economics Li Keqiang

well understood many of the practical problems facing the economy and was seen as a pragmatic reformist, his retirement marks the end of an era when political elites with CCP Youth League background sat in the nation's core decision making group.

- **A New Round of Government Restructuring**

A long-awaited government restructure passed legislative review during the Lianghui, receiving the greenlight for implementation. Highlights of the reshuffle include :

- ✓ **Reorganization of the Ministry of Science and Technology.**

While some small administrative functions were transferred to other ministries, MOST's responsibilities were drastically enhanced when it was tasked with formulating a macro plan for the nation's science and technology development strategy. Notably, on top of the State Council which supervises MOST, there is a plan to establish a Science & Technology Commission under the Central Party Committee





to also scrutinize the Ministry. This means all science and technology work will be put under the Party's leadership in the future.

- ✓ Establish a new organization called **National Financial Regulatory Administration (NFRA)** based on the China Banking and Insurance Regulatory Commission (CBIRC). This new Administration will be put directly under the State Council and is responsible for the overall supervision of the whole financial sector, except for the securities industry.
- ✓ Establish a new organization called the **National Data Bureau**. It will be responsible for coordinating and promoting the construction of data infrastructure, coordinating the integration, sharing, development and utilization of data resources, as well as overseeing data security issues.
- ✓ Lift the rank of the **State Intellectual Property Organization (SIPO)** to that of a ministerial-level bureau directly supervised by the State Council. Previously it was a vice-ministerial level

organ under the State Administration for Market Regulation (SAMR) which itself is just a ministerial-level bureau.

Through this restructuring, the government committed to a 5% cut in headcount in the central government. Similar restructures will also be taken at provincial and city level.

## **New Administration & New Leadership**

The appointment of the key administrative positions also got legislative endorsement at the Lianghui. Overwhelming majorities of the 5,000 delegates in attendance, elected the State President, State Vice President, Chairman of Central Military Commission, Premier, Vice Premiers, and other major positions. See chart below.



President,  
Chairman of the Central  
Military Commission  
People's Republic of China



**Xi Jinping**

Vice President,  
People's Republic of China



**Han Zheng**

Chairman,  
Standing Committee of the  
National People's Congress,  
People's Republic of China



**Zhao Leji**

Chairman,  
People's Political Consultative  
Conference,  
People's Republic of China



**Wang Huning**



# State Council

Premier



**Li Qiang**

Vice Premiers



**Ding Xuexiang**  
MOF, NDRC



**He Lifeng**  
MIIT, MOT, MOST



**Zhang Guoqing**  
MOC, MOA



**Liu Guozhong**  
MOE, MCT, NHC, GAS

State Councilors



**Li Shangfu**  
MOD



**Wang Xiaohong**  
MPS



**Wu Zhenglong**  
Secretary General



**Shen Yiqin**  
NHC, NHSA



**Qin Gang**  
MFA

MOF: Ministry of Finance  
NDRC: National Development and Reform Commission  
MIIT: Ministry of Industry and Information Technology  
MOT: Ministry of Transportation  
MOST: Ministry of Science and Technology

MOC: Ministry of Commerce  
MOA: Ministry of Agriculture and Rural Affairs  
MOE: Ministry of Education  
MCT: Ministry of Culture and Tourism  
GAS: General Administration of Sport

MOD: Ministry of Defense  
MPS: Ministry of Public Security  
NHC: National Health Commission  
NHSA: National Healthcare Security Administration  
MFA: Ministry of Foreign Affairs

Please be noted the above division of responsibilities is the predicted version. The actual division of responsibilities is still to be designated.





- **Incoming Premier's Media Debut**

Traditionally, another highlight of the Lianghui is the Premier's press conference with domestic and international media at the conclusion of the meetings. Incoming Premier Li Qiang held a two-hour Q&A session answering questions on China's domestic and foreign policy on behalf of the new State Council.

A long-time ally of President Xi, Li Qiang's appointment as Premier is not a surprise. Views on how Premier Li will fare in his new role are mixed: on the one hand he has significant administrative experience in provincial coastal cities and provinces like Wenzhou, Zhejiang, Jiangsu and Shanghai. He is seen as having done well in those roles and those provinces grew under his stewardship. As Party Secretary of Shanghai, Li is seen to have successfully courted a number of key tech players – not least of which was Tesla which built its first manufacturing facilities outside of the U.S. in the city. However, his role in implementing the lockdown of

Shanghai in 2022 to fulfil President Xi's Zero Covid instructions left doubts for some. Others also point to the fact that, unusually, Li's experience is only at the provincial level and that he has never held a position at the center.

Responses to Li's two-hour long press conference were largely favorable, and he is seen to have passed his first 'exam'. Most social media feedback was neutral to positive. He demonstrated his grasp of matters on the ground while displaying the pragmatism and capacity to translate President Xi's blueprint and vision into an executable working plan.



2023  
MAJOR  
DEVELOPMENT  
PRIORITIES &  
OPPORTUNITIES





In his work report, outgoing Premier Li Keqiang announced a GDP growth target at around 5% for 2023 (a modest aim given the low growth seen in 2022). The report outlines eight key focus areas for the new government for the coming year, which will shadow a macro-level impact on various industries and can serve as a benchmark for enterprises to set business goals in 2023.

These eight key focus areas include:

### I. Expanding domestic demand

The Chinese economy is currently facing three pressures: contracting demand, excess supply, and weakened expectations, with demand shortage being the prominent issue. Therefore, the government's main focus in 2023 will be to stimulate and expand domestic demand. This will involve boosting industries such as **big-ticket item consumption** with strong upstream and downstream spillover effects, **service consumption** including sports, education, healthcare, tourism, and catering, and **“new infrastructure” consumption** through urban renewal projects. The government will encourage private investment in major national projects and city development projects and shift the focus of investment from “old infrastructure” to “new infrastructure,” with a focus on digital, intelligent, and low-carbon projects to drive consumption.



## **II. Accelerating the modernization of the industrial system**

China's urgent task to cope with an uncertain future in international affairs has forced the country to focus on accelerating the modernization of its industrial system. This will be accomplished by focusing on key manufacturing industries, finding weak links in core technologies and components, and improving their competitiveness.

The government will also strengthen its reserves of strategic resources and increase domestic exploration and development of strategically important energy and mineral resources. The development of digital and intelligent technologies, including in emerging industries such as new energy, artificial intelligence, biomanufacturing, green and low-carbon technology, and quantum computing, will also be supported.

## **III. Boosting market expectations and confidence**

To boost the flagging confidence of the private sector, efforts will be made to support small and micro enterprises and individual businesses in 2023. Practical measures from the government will include tax reduction and stabilizing employment to reduce production and operation costs for private enterprises, particularly small and micro enterprises.





#### **IV. Expanding institutional opening-up and increasing support for foreign companies**

The government is committed to providing greater convenience for foreign companies engaging in trade and investment negotiations in China. This year's report emphasized the need to continue promoting institutional opening up, expanding market access, and increasing reform of the modern service industry – measures that have been on the cards for some time already. The government will look to promote accession to high-standard economic and trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and steadily expand institutional opening up. The Work Report explicitly acknowledged the important role of imports and exports in supporting the economy and as well as the construction of foreign-funded landmark projects.

#### **V. Deepening reform of the financial system and preventing major financial risks**

The report emphasizes that in 2023, the Chinese government should focus on preventing and resolving economic and financial risks, including financial, real estate, and local debt risks. The government plans to improve the modern financial regulatory system and increase management efficiency by establishing the NFRA. Additionally, to prevent risks caused by the real estate industry, the government proposes countermeasures that include helping high-quality real estate companies prevent and resolve risks, improving their asset-liability status, and strengthening the housing security system to solve housing problems for various groups in society and increase the demand for the housing market.





## **VI. Meeting people’s basic living needs and promoting the even distribution of public service resources among regions.**

The report emphasizes the importance of fairness in public services, particularly in housing, education, and healthcare. It highlights the need to address housing issues for new urban residents and young people, promote high-quality and balanced education, and improve access to medical resources in lower-tier areas. Additionally, the report proposes to strengthen elderly care services and improve policy settings to support childbirth to grapple with China’s rapidly ageing population.

## **VII. Stabilizing grain output and advancing rural revitalization**

The Work Report proposes measures to strengthen agriculture, including stabilizing grain planting areas, improving infrastructure, promoting technological innovation, developing rural industries, and preventing poverty from returning on a large-scale. The report also emphasizes the need to consolidate poverty alleviation achievements and prevent large-scale poverty.

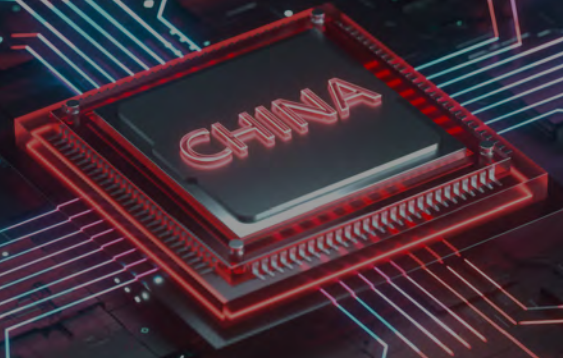
## **VIII. Continuing the transition to green development**

The report highlights the evolving relationship between China’s economic growth and environmental protection. It proposes specific measures to support green development. China has a strong renewable energy technology system, including the world’s largest installed capacity of renewable energy. The new energy industry, including new energy vehicles, is also booming and may become a new growth driver in China.

Economic policies for 2023 will be guided by three main considerations:

- i. “Give consideration to both development and security imperatives”,*
- ii. “Scientific and technological policies should aim at building up our country’s strength and self-reliance in science and technology”, and*
- iii. “Social policies should meet basic living needs.”*

# EMERGING TRENDS



- 1
  - 2
  - 3
  - 4
  - 5
- A planned economy mechanism to mobilize nationwide resources has been launched aiming to make breakthrough in scientific and technological innovation.

- “Cutting-edge technologies”, “frontier technologies” and key “bottleneck” technologies like chips and semiconductors are increasingly becoming the focus that government will invest in to outcompete global rivals.

- The political status granted to business leaders indicates that the internet economy and real estate sectors have fallen out of favor.

- Expect a restructure “storm” in the financial sector. Businesses should prepare themselves for looming drastic regulatory changes.

- Data protection, data utilization and data security have been placed under stricter supervision, this brings opportunities as well as risk, business should review data management systems and policies to ensure compliance.



# TO BE DETERMINED

- **The private sector and private entrepreneurs are they “people on our own side” ?**

In a panel discussion at Lianghui with delegates from the private sector, Xi Jinping said both private economy and private entrepreneur are “people on our own side”. He urged that private entrepreneurs be given fair treatment and fair market recognition.

These comments came after a period of more than two years, in which the private sector and private entrepreneurs were the subject of significant criticism following the introduction of “Common Prosperity” – accused of getting rich in improper ways and of causing social disruption. Even a business leader like Liu Chuanzhi, founder of Lenovo, with a hitherto impeccable public reputation found himself demonized in social media last year as a “thief” of state-owned assets. Jack Ma’s apparent decision to ‘lie down’ abroad rather than face further repercussions at home, triggered broader fears across the private sector.

The private sector, bruised and battered by recent years, yet inveterately optimistic, may tread cautiously this year as it attempts to understand its place within the Common Prosperity blueprint.

- **What sort of a welcome can foreign investment and foreign companies expect?**

Though (new) Premier Li appealed to all levels of local governments to serve foreign investors better and urged multinationals to retain confidence in the China market during his inaugural press conference, detailed policy measures were not forthcoming. As national security reviews are prioritized on the government’s agenda while foreign direct investment slips down that list, and with tit-for-tat trade restrictions flying between the U.S. and China MNCs may query what exactly there is to get excited about. Against the backdrop of global insecurity, more and more MNCs are considering securing their supply chains by finding alternative locations for manufacturing and assembly in China’s near neighbors. Many are watching with interest to see



how China will try and incentivize the retention of domestic manufacturing activity.

- **How will a planned economy approach can find the solutions to “bottlenecked” technologies ?**

Not all technological problems are created alike. Some technological breakthroughs can be ‘brute forced’ through the application of labor and brain power – something that China is in no short supply of and which a planned economy can easily mobilize. In many areas this approach has allowed China to not only catch up with, but indeed comfortably surpass world-leading players. Other technologies – like semiconductors – require a complex ecosystem of suppliers, and technical know-how, built up through the accretion of practical expertise as well as applied science. These gaps are much harder to plug.

For now, China is doubling down on its plans to achieve self-reliance in

semiconductor fabrication, continuing to assign significant pools of money and a prominent place in state priorities to the development of the sector. While betting against Chinese ingenuity is not often a winning strategy, there does seem to be good reason to expect that in key sectors like this the planned economy will not provide a solution.

# SUGGESTIONS FOR MNCs IN CHINA







1

Stay alert to political risks when operating in China, stay up to date on what is happening in the market, and develop a nuanced understanding of all of the dynamics at play.

4

Integrate your China public affairs strategy directly into your company's global strategy, find balance and coordinate your in-China and out-of-China stances on key topics.

2

Develop deep knowledge of the hidden meanings of political terms and themes with the assistance of local counsel.

5

All things in moderation – including both optimism and caution – continue to look for the growth opportunities in China given its size and the market potential, while remaining alert to the challenges.

3

Avoid the double audience dilemma, know where the gray areas are and how to stay clear of sensitive spaces.

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