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Chinese Premier Li Qiang heading to a news conference following the closing session of the National People's Congress in Beijing on Monday. In his first press conference, he said his main priority was to "turn the beautiful blueprint" that President Xi Jinping had laid out at the 20th Party Congress into reality. The short-term challenges, he said, were as defined by the party's Central Economic Work Conference, with a focus on maintaining stability, while making progress on quality development. PHOTO: REUTERS

It's Party time as Team Xi takes control

New Premier Li Qiang will need to balance between party and state, and the public and private sectors

Bert Hofman

"Heaven is looking at what humans are doing. The firmament has eyes." These were outgoing Premier Li Keqiang's parting words for his colleagues in the State Council, China's Cabinet, last week.

This year's meeting of the National People's Congress (NPC), China's Parliament, which ended on Monday, made clear that the eyes of heaven are the only accountability left for China's now third-term President Xi Jinping, the General Secretary of the Communist Party of China (CPC). Mr Xi received 2,952 votes out of the 2,952 NPC delegates present.

Even though he was overshadowed by Mr Xi in the past decade, Mr Li, a one-time contender for the CPC top job, can look back on an exceptional career.

He became the youngest party secretary in CPC history in Henan, and later in Liaoning, before becoming executive vice-premier under then Premier Wen Jiabao. He led China's economy through the global financial crisis, and developed a plan to steer China away from the middle-income trap. The plan inspired Mr Xi's first economic programme in 2013, but it was gradually abandoned and overshadowed by Xinomics, which emphasises the role of the state and national security.

THE GOVERNMENT WORK REPORT

Mr Li's last government work report was uneventful and blissfully short at 53 minutes in all. This year's indicative target for gross domestic product (GDP) growth was a modest "around 5 per cent", which was decidedly unambitious, perhaps reflecting caution after the government royally missed the 5.5 per cent target of 2022, landing at the 3 per cent mark.

The slightly higher target for new jobs creation at 12 million (it was 11 million in 2022) shows the government's concern with rising unemployment, especially among young people. In 2023, some 15 million of them will join the workforce, 11.6 million of whom have a university degree, and graduates have had a hard time finding jobs in the past two years.

The government will only modestly stimulate growth, though. The announced government budget deficit, at a headline 3 per cent, was the same as that in 2022 – though the total deficit is more likely 8.5 per cent of GDP, not counting off-budget activities of local government.

The government's short-term policy priorities are familiar as well: expanding domestic demand, modernising the industrial system, supporting the public and private sectors alike, attracting more foreign direct investment, containing economic and financial risks, and further transitioning to a green economy.

On the last, the return of a target for reduction in energy intensity (by 2 per cent) is encouraging, as it was dropped after energy shortages in 2021 and amid the Covid-19 downturn. In his speech to the NPC, Mr Li took little time to elaborate on these priorities – it is up to the new team to make these work.

TEAM XI

Team Xi has taken over all the key posts in government and legislature, including those of premier (Mr Li Qiang), executive vice-premier (Mr Ding Xuexiang), vice-premier in charge of the economy (Mr He Lifeng), chairman of the National People's Congress (Mr Zhao Leji) and chairman of the Chinese People's Political Consultative Conference, or CPPCC (Mr Wang Huning).

Aside from the premier, vice-premiers and state councillors, most of the ordinary ministers were reappointed. The reappointment of Finance Minister Liu Kun and People's Bank of China (PBOC) governor Yi Gang came as a surprise, as they had lost their positions in the CPC Central Committee in 2022, which usually is a good indicator for retirement. On balance, this continuity is good news, especially because of the international experience the two have built up in the past several years, including through meetings at the Group of 20, International Monetary Fund and World Bank, and the Bank for International Settlements.

For the PBOC, this could mean that the agendas of internationalisation of the renminbi and gradual opening of the capital account are still on the books. It may bode less well for fiscal reforms as over the past several years, the incumbent minister has shown little appetite for the major fiscal reforms needed to support a new growth agenda. These reforms, put in motion by former finance minister Lou Jiwei in 2014, have lost momentum since, and some, like the control over local government finance vehicles, have gone in reverse.

Women may hold up half the sky, as Mao Zedong famously said. But in today's China, they are far from holding half of the minister-level appointments: Of the 34 ministers and state councillors, only three are women. Also, for the first time in decades, there were no female vice-premiers, and only one female state councillor – Madam Shen Yiqin, former party chief of Guizhou province. This makes her the most senior woman official on the party-state apparatus as no women were appointed to the 24-men CPC Politburo in 2022 either.

PARTY AND GOVERNMENT

These personnel changes in the Cabinet mattered less than those made last October in China's true halls of power, the CPC Politburo and its Standing Committee. More than ever before, under Mr Xi, it is the party that controls the government, and it is increasingly replacing government in operational matters as well, through its growing number of committees and small leading groups.

This is full circle from the reforms that former leader Deng Xiaoping initiated in the 1980s, which aimed to bring more separation of government and party.

Separation of party and state allowed the former to focus on political directions, while leaving the formulation and administration of policy to a government staffed with technocrats. This created an accountability of sorts, but this separation of power, no matter how subtle, was too much for Mr Xi, who wants "the party to lead everything".

The new premier, Mr Li Qiang, was on message. In his first press conference, traditionally held after the closing of the NPC, he said his main priority was to "turn the beautiful blueprint" that General Secretary Xi had laid out at the 20th Party Congress into reality. The short-term challenges, he said, were as defined by the party's Central Economic Work Conference, with a focus on maintaining stability, while making progress on quality development.

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The NPC also approved several changes to the organisation of government. The major ones seem to make sense: A centralisation of financial sector supervision in a new state agency, and repurposing the Ministry of Science and Technology from an implementer to a funder and policymaker for research and development. Other ministries, national laboratories, universities and companies should implement the policies to achieve indigenous innovation.

In apparent contradiction to the desire to reign in the financial sector, the PBOC is to abolish its regional structure and county-level offices, and revert to provincial-level branches. Such a structure caused problems in the past as provincial (and municipal) governments saw the PBOC branches as their own piggy banks until the mid-1990s. Some fear that the move could undermine the independence of the PBOC, though that independence was never close to that of central banks in Organisation for Economic Cooperation and Development countries anyway.

The new National Data Bureau aims to realise China's ambitious vision for data as a new factor of production. This is quite a task and it remains to be seen whether the bureau can succeed. If it does, China will have set a very different course from the Western world, where data is still largely gathered, curated and used by private companies.

The approved cut of central government staff by 5 per cent, and the alignment of the salaries of financial supervisors with civil service salaries (which is a major salary cut for the former) may bode less well for government capacity. Ever since then Premier Zhu Rongji cut the ranks of central civil servants in half at the end of the 1990s, the centre has been struggling with understaffing. The plan may be to shift the work of formulating new policies and supervision of local governments increasingly to the party.

The approved government reforms are only half the picture. In the coming weeks, changes to the party structure are to be announced, matching those of government. In 2018, it was the party changes that reinforced the party control over government, and in 2023 it could be the same.

Talk has it that a revamp of the Central Finance Working Group is in the making. This group prepared the major financial sector reforms in 1998-2002, including a recapitalisation of the banking system. This could signal that major financial sector reforms are ahead, a signal amplified by the rumoured appointment of Mr He Lifeng as the PBOC's party secretary.

THE PARTY AND THE PRIVATE SECTOR

How China conceives the role of the private sector, going forward, remains crucial for growth. After all, it is the private sector that produces more than 60 per cent of output and more than 80 per cent of employment. The past few years have not been kind to private enterprises: In addition to the Covid-19 policies, talk of "controlling the barbaric expansion of capital" and the regulatory crackdown on Internet companies shook the confidence of the private sector.

Mr Li Qiang is on a mission to restore that confidence.

During his time in Zhejiang, Jiangsu and Shanghai, Mr Li has been a strong supporter of the private sector and even civil society. "There should be more Alibabas and more Jack Mas," he had said in 2014. Even more remarkably: "The government cannot be an unlimited government," he said in 2015. "To build a limited yet effective modern government, you need to transfer a lot of managerial power to social organisations."

That was then, this is now. In his post-NPC press conference, after paying due respect to party guidance, Mr Li did express continued support for the private sector.

He also noted that there had been "inappropriate discussions" on the role of the private sector in 2022 – perhaps referring to overzealous party members who suggested it was time to abolish the private sector altogether. "Entrepreneurs will enjoy a better environment and broader space in the new era," he said at the press conference.

Mr Xi had taken a similar line in a meeting with private sector representatives to the CPPCC on March 7. "The Party Central Committee has always insisted on the "two unswervings" and "three unchanged", he said, using party code for private sector support. He added that "it is necessary to guide private enterprises and private entrepreneurs to correctly understand the principles and policies of the Party Central Committee".

The question is how overbearing this guidance will be.

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