Takeaways of China's 2023 Two Sessions

Economic Insights

KPMG China

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Summary

The first sessions of the 14th National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC) were successfully held in Beijing from 4 to 13 March 2023. At the meeting, NPC delegates deliberated on six reports, including the Government Work Report (the "Report"), the draft amendment to the Legislation Law of the People's Republic of China and the institutional reform plan of the State Council, and elected and appointed the new central government leadership.

2023 is a historic year that marks the beginning of the 20th National Congress. The Report emphasises that in 2023 the government will focus on prioritising economic stability and pursuing progress while also ensuring stability. In terms of policy implementation, officials will prioritise the recovery and expansion of consumer spending, with a view to stabilise growth, expand domestic demand and enhance confidence. In addition, the Two Sessions also focused on promoting high-quality economic development, accelerating the modernisation of the industrial system, enhancing fundamental research to boost self-reliance and strength in science and technology, continuing the country's low-carbon transformation, adhering to the path of high-level opening up, and facilitating coordinated regional development. Policymakers specified 13 focus areas:

1. Stabilising growth as a top priority for the year
2. Boosting domestic demand as a key driver to economic growth
3. Strengthening the modernisation of the industrial system
4. Boosting market confidence and stimulating the vitality of the private sector
5. Kicking-off a new round of state owned enterprises reform
6. Facilitating high-level opening up to stabilise foreign trade and foreign investment
7. Enhancing fundamental research to boost self-reliance and strength in science and technology
8. Promoting green development to reach the "dual carbon" goals
9. Further advancing the comprehensive registration-based system to improve the modern capital market with Chinese characteristics
10. Preventing and mitigating major economic and financial risks
11. Facilitating coordinated regional development
12. Improving people's well-being
13. Implementing a new round of institutional reform of the State Council

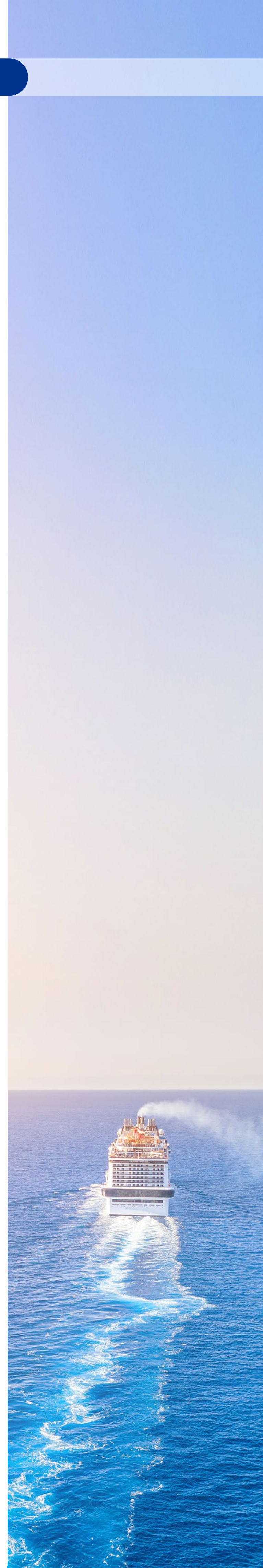


Table 1: Key targets of the Government Work Report

	Economic indicator	2021 targets	2021 results	2022 targets	2022 results	2023 targets
Economy	Real GDP growth	Over 6%	8.1%	Around 5.5%	3.0%	Around 5.0%
	CPI inflation	Around 3%	0.9%	Around 3%	2.0%	Around 3%
Employment	New urban employment (million jobs)	Over 11	12.69	Over 11	12.06	Around 12
	Surveyed urban unemployment rate	Around 5.5%	5.1%	Within 5.5%	5.5%	Around 5.5%
Monetary policy	Growth of M2 and total social financing (TSF)	In line with nominal GDP growth	M2: 9.0%; TSF: 10.3% (Nominal GDP: 12.6%)	In line with nominal GDP growth	M2: 11.8%, TSF: 9.6% (Nominal GDP: 5.8%)	In line with nominal GDP growth
Fiscal policy	Deficit to GDP ratio	3.2%	3.8%*	2.8%	4.7%*	3.0%
	Deficit (RMB trillion)	3.57	4.38*	3.37	5.69*	3.88
	Local Government Special Bonds (RMB trillion)	3.65	3.53	3.65	4.03	3.80
	Tax and fee cuts (RMB trillion)	Continue cuts	Over 1.1	Around 2.5	Over 4.2 (incl. postponed tax and fee payments of RMB 750b)	Continue improving existing measures
Investment	Renovation of old urban residential communities (thousand)	53	56	Continued	53	Over 50
Environment	Reduction in energy use per unit of GDP	Around 3%	2.7%	In line with the overall 14th FYP target, maintain flexibility	0.1%	Around 2%

Source: Government Work Report, National Bureau of Statistics, KPMG analysis
** The fiscal deficit and deficit ratio numbers do not include transfers from the budget stabilization and surplus from previous years.*

Stabilising growth as a top priority for the year

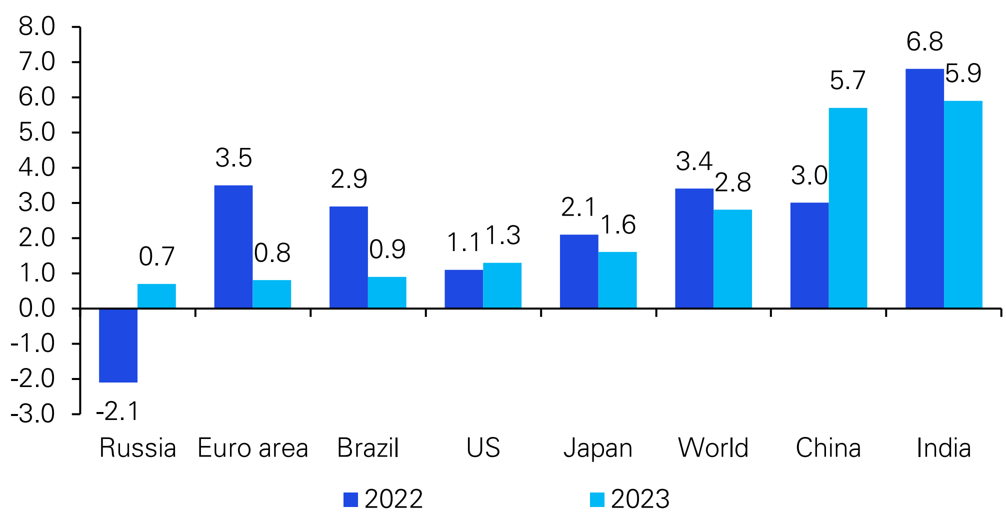
In accordance with the guiding principles of the Central Economic Work Conference, the Report calls for deepening reform and opening-up in all respects, boosting market confidence, coordinating the expansion of domestic demand with the deepening of supply-side structural reform, giving priority to ensuring stable growth, employment and prices, effectively preventing and defusing major risks, maintaining a balance between an effective rise in quality and reasonable growth in quantity, and making solid progress in advancing the modernisation of China.

In the past few years, changes in the focus of China's economic policies have reflected the different priorities of the country in different periods. In July 2018, against the backdrop of intensifying Sino-US economic and trade frictions as well as significant changes in the external environment, the central government for the first time stressed efforts to ensure stability across six key fronts: employment, the financial sector, foreign trade, foreign investment, domestic investment and expectations. In the face of the outbreak of the pandemic in 2020, and on the basis of the "six key fronts," the central government further emphasised maintaining security in the six key areas of job security, basic living needs, the operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments. As China rapidly emerged from the COVID-19 pandemic, policymakers proposed for the first time the "three stability tasks" at the Politburo meeting in December 2022, which aim to stabilise growth, employment and inflation. The evolution from the "six key fronts," to the "six key areas," to the "three stability tasks" reflects China's efforts to proactively adjust its economic policy to address different circumstances. As we make our way through 2023, maintaining steady growth has once again become the focus of the country's economic work.

In the Report, China sets a gross domestic product (GDP) growth target of "around 5 percent" for 2023, slightly lower than the target of over 6 percent for 2021 and around 5.5 percent for 2022 (Table 1). However, if we compare this goal with the expectations for other countries, it is still higher than that of most major economies. For example, the International Monetary Fund (IMF) expects the global economy to grow by 2.9 percent this year, with the US growing by 1.4 percent, and emerging markets and developing economies growing by 4.0 percent. All of these are lower than China's economic growth target (Figure 1).

In general, we expect the recovery of consumer spending in China to accelerate this year. Technological innovation and green transformation will drive investment in the manufacturing industry; growth in infrastructure investment will remain stable; and the real estate market's drag on the economy will lessen. Meanwhile, the slowdown in the tightening of monetary policies in overseas markets is providing more space for China's monetary policy to manoeuvre, while also stabilising the RMB exchange rate. We expect the Chinese economy to grow by 5.7 percent this year, which is higher than the previous year. As the global economy still facing many challenges, we expect the growth rate of the world economy to slow down this year. Amid the acceleration of the domestic economy and the slowdown in the global economy, China will once again likely act as the main driver of global economic growth.

Figure 1: Expected growth rates of major economies, %



Source: IMF, KPMG Analysis
Note: forecast for China is by KPMG

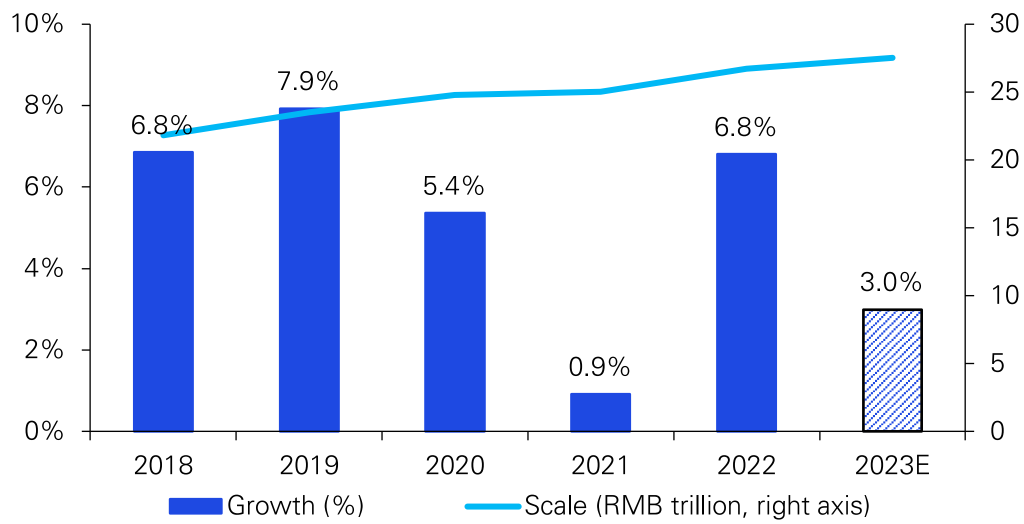
The Report calls for the continued implementation of proactive fiscal policies and prudent monetary policies, exercising more effective macroeconomic policies, and better coordinating different policies to create synergies that promote high-quality development.

In particular, the Report emphasises implementing proactive fiscal policies "more intensely" to produce better results. To raise the "intensity" of the policies, it says the government should focus on quantity to maintain a certain scale of fiscal expenditures, properly expand policies, and stabilise growth through the use of financial instruments such as local government special bonds and loan interest subsidies.

In order to obtain "better results," policymakers should also focus on quality. Apart from scaling-up fiscal support, the government should enhance the effectiveness of expenditures to improve the potency of its policies. China has set a target for the deficit-to-GDP ratio of around 3.0 percent, which is 0.2 percentage points higher than the 2022 ratio of 2.8 percent, with the government expenditure this year representing an increase of RMB 510 billion over last year.

Relatedly, the government's fiscal expenditures are estimated to reach RMB 27.5 trillion in 2023, representing a 3 percent increase over the previous year (Figure 2). In 2023, local governments are expected to issue special bonds amounting to RMB 3.8 trillion, and the pre-approved amount for the year has exceeded RMB 2 trillion for the first time. These issuances aim to maintain the overall scale of government investment while also expanding the use of bond proceeds to more areas and more projects. In addition, in order to strengthen the financial position of local governments and promote balanced development among regions, the Report states that, in 2023, the central government will increase transfer payments to local governments, which will exceed RMB 10 trillion for the first time.

Figure 2: China's fiscal expenditure



Source: Ministry of Finance, KPMG analysis

With respect to reductions in taxes and fees, the government plans to improve preferential tax and fee policies, and extend and refine policies on tax and fee cuts, tax rebates and tax deferrals as needed based on actual circumstances. In 2023, more focus will be placed on resolving the difficulties of enterprises in a more precise and targeted way. In particular, support will be given to micro, small and medium-sized enterprises (MSMEs), self-employed individuals, and industries facing extreme difficulties, with the goal of improving their dynamism and vitality and bolstering market confidence.

In 2023, prudent monetary policy needs to be implemented in a targeted and robust way to create tangible results. Given downward pressure on exports due to a slowdown in global economic growth and a still-shaky foundation for China's economic recovery, monetary policy is playing a crucial role in stabilising the economy.

As stated in the Report, in 2023, the government will maintain proper and adequate liquidity, and ensure that the money supply and total social financing generally increase in line with nominal economic growth. We expect domestic monetary policy this year to continue to allow a certain increase in the aggregate money supply. On 17 March 2023, the People's Bank of China (PBOC) announced that the reserve requirement ratio (RRR) would be cut by 25 basis points to maintain sufficient liquidity in the banking system in the medium to long term and support the nascent economic recovery. In the future, we think that there is still room for RRR and interest rate cuts.

Structural monetary policy should be duly implemented in a focused, targeted and moderate way. To this end, it should leverage the combined advantages brought about by the aggregate money supply, economic structures and prices; coordinate the expansion of domestic demand with the optimisation of the supply side; and encourage financial institutions to provide more support, particularly in key focus areas such as small and micro enterprises, technological innovation and green development.

By the end of 2022, the outstanding amount of China's structural instruments stood at RMB 6.4 trillion, accounting for 15 percent of the PBOC's total assets. This reflects the government's efforts to provide precise support to weaker parts of the economy to increase their internal development capabilities, and we expect that the Chinese government will intensify its efforts to issue such instruments this year. Last year, policy-backed financial instruments effectively supported an increase in infrastructure investment, which helped stabilise the economy, create employment opportunities and promote consumer spending. We expect the central bank to increase the use of such instruments this year to support fiscal spending and stimulate investment.

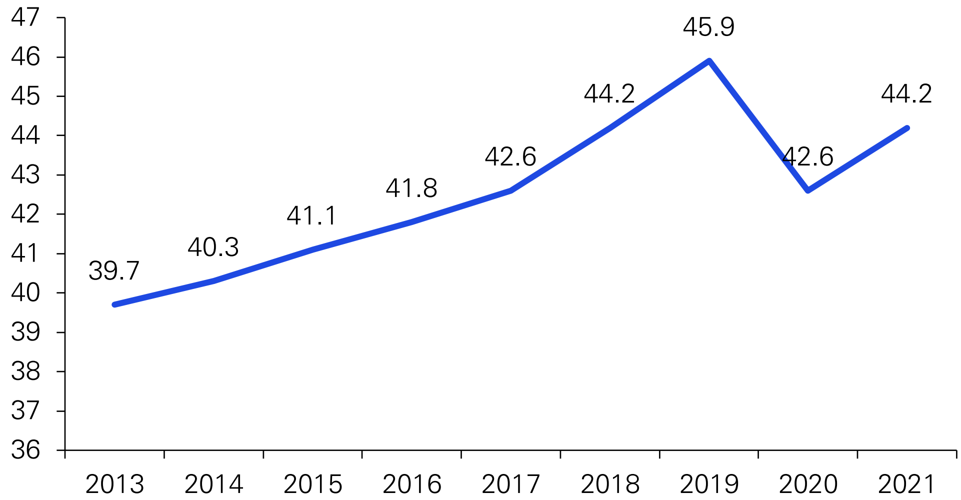
Boosting domestic demand as a key driver to economic growth

The Report calls for expanding domestic demand and prioritising the recovery and expansion of consumer spending. In 2023, the government should use multiple channels to boost the incomes of urban and rural residents, stabilise spending on commodities such as automobiles, and promote the recovery of spending in service sectors such as catering, culture, tourism and sports.

Stabilising employment is critical to ensuring the healthy growth of consumer spending. According to the Report, China aims to create around 12 million new urban jobs in 2023 and maintain an urban unemployment rate of around 5.5 percent for the year, which reflects the country's goal of maintaining employment stability. At the same time, in the face of persistent pressure around aggregate job creation and the existence of structural issues in employment, China will strengthen and improve its employment policies in 2023 to promote employment and economic stability, and harness the role of entrepreneurship to boost employment. In recent years, the number of platform workers working under flexible employment arrangements has grown rapidly and become a major source of employment growth in China. Strengthened protection of people who are flexibly employed and engaged in other new forms of employment will help to raise their income, improve their social security and enhance expectations in the job market. It is important to note that 11.58 million people are expected to graduate from the country's colleges in 2023, the highest figure on record. Against this backdrop, the Report calls for placing a higher priority on promoting the employment of young people, particularly college graduates, making this an important task this year.

Consumer spending drives economic growth and plays a fundamental role in economic development. In the global economy's consumption-led recovery in the wake of the pandemic, consumption has rebounded to varying degrees following the relaxation of quarantine measures, with growth in consumer spending increasing compared with the pre-pandemic levels. With the relaxation of China's pandemic prevention and control measures in 2023, factors that previously restricted people's ability, willingness and venues to consume have largely disappeared. Going forward, we expect consumption to recover at an accelerated pace, with service sectors such as catering, retail and tourism that were most affected by the epidemic being among the first to recover. Per capita service consumption as a share of total consumption has been increasing in China since 2013, accounting for nearly 50 percent of the total consumption expenditures of Chinese residents before the outbreak of the pandemic. However, the proportion recorded a decline during the pandemic. The recovery of services consumer spending will significantly boost China's overall consumption growth (Figure 3).

Figure 3: Per capita service consumption of China's households as a share of total consumption, %



Source: National Bureau of Statistics, KPMG analysis

The Ministry of Commerce has designated 2023 as the "Year for Boosting Consumption" with the goal of enhancing consumer confidence and market vitality. Currently, spending on automobiles and housing accounts for a significant proportion of household expenditures. In terms of retail sales figures above the designated size[1], automobile and housing in total account for 36 percent of household consumption. Some provinces and cities have provided consumption coupons to their residents and promulgated subsidy policies to promote spending on items such as new energy vehicles and smart home appliances, with a view to driving the recovery of consumer spending. Moreover, many provinces have proposed developing certain cities into international consumption hubs and taking measures to facilitate consumption scenarios. The construction of logistics distribution centres is also an important part of local regions' efforts to improve their consumption environment and extend new consumption scenarios to the markets in counties and villages. In 2023, we expect consumer demand to continue to increase, providing support for economic growth.

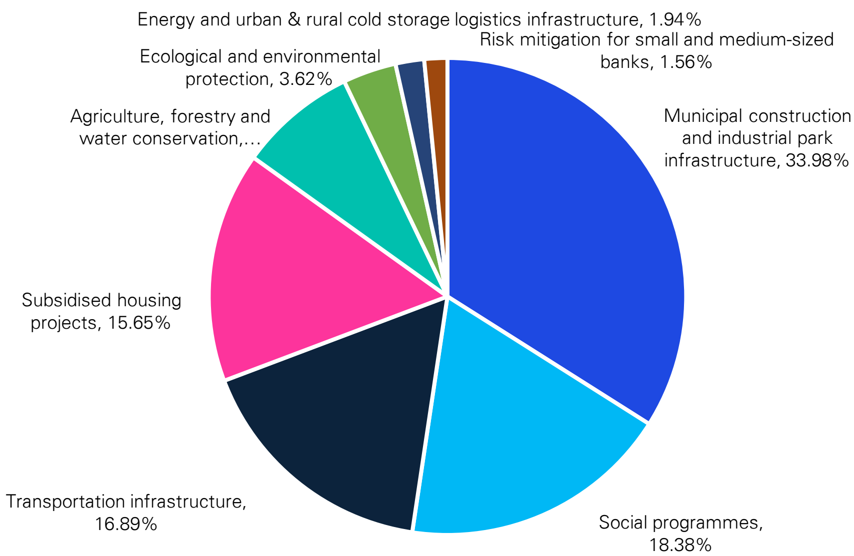
In respect of investment, the Report mentions that government investment and policy incentives should effectively drive society-wide investment. For 2023, policymakers have proposed that RMB 3.8 trillion be allocated for local government special bonds, an increase of RMB 150 billion over the target for the previous year. In 2023, the government will speed up the implementation of major projects set out in the 14th Five-Year Plan and launch a number of urban renewal projects. It will also promote complementary development between regions to enable each region to fully leverage its strengths. At the same time, the government will continue to step up support for economic and social development in areas badly hit by COVID-19, and take measures to attract more private investment to major state projects and projects that address weak areas of the economy, with a view to stimulating private investment.

1 Retail figures above the designated size include wholesale companies with annual total sales revenue of over RMB 20 million (with over 20 staff at year end) and retail companies with annual total sales revenue of over RMB 5 million (with over 60 staff at year end).

Since the beginning of this year, investment in the infrastructure and manufacturing sectors has been gathering pace as many major projects in local areas have been launched. With regard to sources of funding, the pre-approved limit for local government special bonds has exceeded RMB 2 trillion for the first time; policy-backed financial instruments are likely to continue to be used as an effective tool for boosting investment; and real estate investment trusts (REITs) in the infrastructure sector are expected to enter a period of rapid growth this year, with societal capital being used to promote infrastructure development. According to the National Development and Reform Commission, over 60 REITs are expected to be issued by the end of this year, with a total issuance scale in excess of RMB 200 billion, representing an increase of 1.5 times that in the previous year.

In terms of the direction of investment, the focus of government support includes traditional infrastructure sectors such as industrial parks and supporting facilities, transportation hubs, water conservancy, and urban renewal, as well as new infrastructure sectors such as 5G base stations, computing power, new energy, energy storage and green infrastructure (Figure 4).

Figure 4: Usage of local government special bonds in 2022, %



Source: Ministry of Finance, KPMG analysis

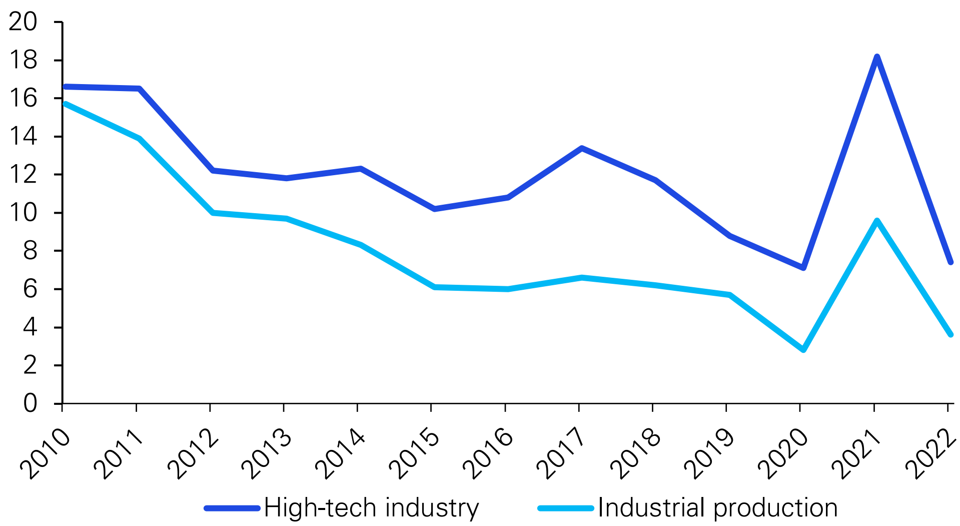
Strengthening the modernisation of the industrial system

Building a modern industrial system is crucial to promoting the high-quality development of China's economy. The Report calls for enabling scientific and technological innovation to play a bigger role in supporting industrial development. To this end, the government should continue to implement initiatives to bolster industrial and supply chains, with a focus on key industrial chains in the manufacturing sector; and pool high-quality resources and make concerted efforts to achieve breakthroughs in core technologies in key areas, so as to fully unleash innovation. China should also speed up the digitalisation of traditional industries and small and medium-sized enterprises (SMEs) to promote their high-end, smart and eco-friendly development. Finally, the country should accelerate the research & development (R&D) and application of cutting-edge technologies, and generally promote the application of scientific and technological advances. It should also strive to develop the digital economy, step up regular oversight, and support the development of the platform economy.

The industrial foundation is the cornerstone for the development of a modern industrial system. For this reason, industrial foundation reengineering projects are important for ensuring that the industrial system is self-controllable, safe and reliable. In view of the increasingly complex international landscape in recent years, China has further improved the resilience of its industrial and supply chain and continued to strengthen research in key areas such as major equipment, major basic components and new materials. Many provinces have also included industrial foundation reengineering and industrial technology transformation initiatives in their government work reports this year. They are leveraging their local resources and comparative advantages to focus on tackling weaknesses around core technologies and components to accelerate breakthroughs, improve the security of the industrial chain and ensure the smooth circulation of the national economy.

Transforming and upgrading traditional industries towards higher-end, smarter and greener development will enhance the core competitiveness of China's modern industrial system in the world. In recent years, China has continuously increased support for high-tech industries. The growth rate of the high-tech sectors value added has outpaced that of the country's overall industrial production for 13 consecutive years (Figure 7). Many local governments are fostering the construction of clusters of advanced manufacturing industries and strategic emerging industries and developing producer services such as R&D and design, inspection and testing, business consulting, and professional certification to transition the industrial structure towards high-end development and enhance the competitive advantages of the entire industrial chain. Amid the rapid emergence and extensive application of artificial intelligence (AI), many enterprises are entering the intelligent transformation stage. Big data analysis is enabling enterprises to better formulate production plans and improve intelligent production, which is helping them raise quality, reduce costs and increase efficiency. Meanwhile, in order to proactively meet the "dual carbon" goals, traditional manufacturing enterprises should further improve the utilisation efficiency of fossil fuel, promote resource recycling and accelerate the green transformation of the industry.

Figure 5: Growth of industrial production, %

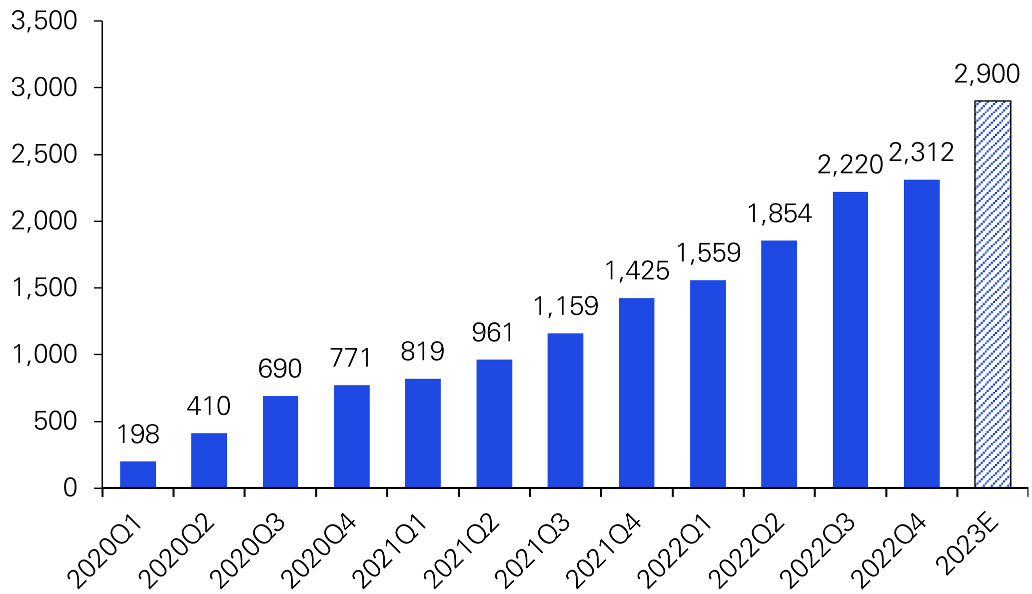


Source: Wind, KPMG analysis

The digital economy is also playing a significant role in the construction of the country's modern industrial system. In February 2023, the Central Committee of the Communist Party of China and the State Council jointly issued the Overall Layout Plan for the Construction of a Digital China, which states that building a Digital China will help advance Chinese modernisation in the digital era and offer robust support for the country to develop new competitive advantages. The Plan calls for constructing digital infrastructure and data resource systems and empowering economic and social development in order to strengthen, improve and grow the digital economy. Meanwhile, the State Council's new institutional reform plan calls for the establishment of a national data bureau to promote the construction of data infrastructure in a systematic manner and coordinate the sharing, development and utilisation of data resources.

5G and the Industrial Internet represent indispensable new infrastructure for industrial digitalisation, providing critical support for the development of modern industrial chains and supply chains. Currently, China has more than 2.31 million 5G base stations, far exceeding the number in developed economies such as the United States and Europe. Meanwhile, the innovative application of the Industrial Internet has already expanded to the country's industrial chain, covering 45 key industries in the national economy, including the steel, machinery, electricity, transportation and energy sectors. In this way, the Industrial Internet is effectively supporting the transformation and upgrading of the manufacturing sector. In 2023, the Ministry of Industry and Information Technology plans to build 600,000 5G base stations and expand the application of 5G, particularly in the industrial sector (Figure 6). The construction of a Digital China will help drive the high-quality development of the nation's digital industry and create a competitive digital industry cluster. Meanwhile, it will also integrate digital technology with the real economy more deeply, empower the transformation and upgrading of traditional industries, promote the emergence of new businesses, and drive the construction of a modern industrial system in China.

Figure 6: Number of China's 5G base stations, thousands



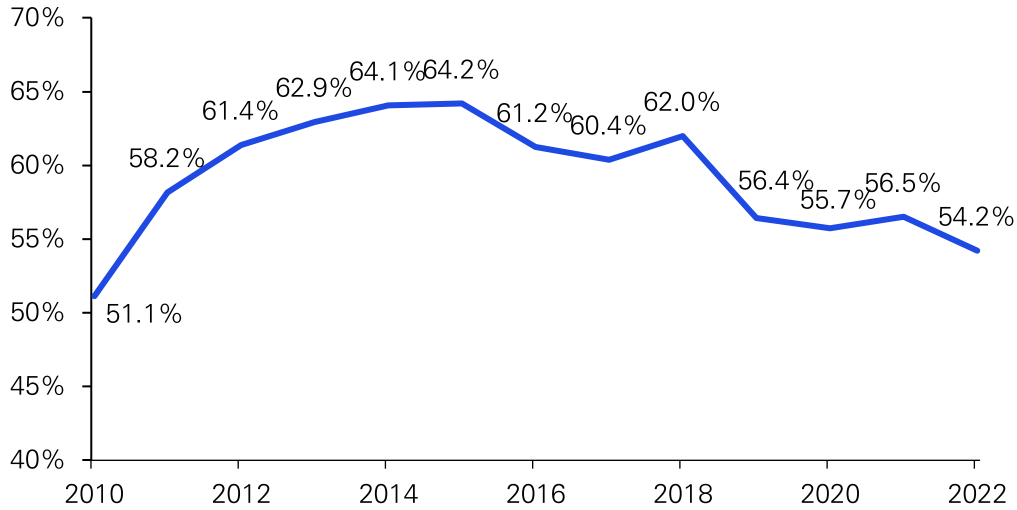
Source: Wind, KPMG analysis

Boosting market confidence and stimulating the vitality of the private sector

The Report calls for protecting the property rights of private enterprises and the rights and interests of entrepreneurs in accordance with the law, and refining related policies. It states that the government should encourage and support private enterprises in their efforts to grow and expand, and support the business development of MSMEs and self-employed individuals. It should also cultivate a cordial and clear relationship between the government and enterprises, and cultivate an environment in which enterprises under all forms of ownership can compete and grow on a level playing field. Meanwhile, effective measures and policies should be rolled out to stabilise market expectations and boost market confidence.

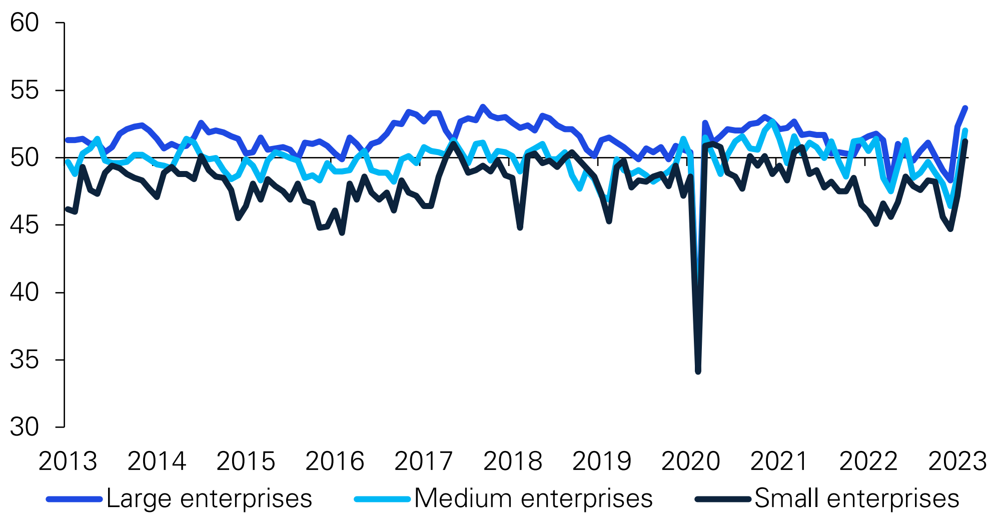
Over the past three years, the confidence and expectations of market entities were affected by the pandemic. Relatedly, the investment risk appetite of enterprises declined, and the general public adopted a more cautious attitude toward consumption. Private investment represents a significant portion of China's fixed asset investment, accounting for over 60 percent of total fixed asset investment in the past. However, in 2022, private investment in fixed assets as a share of total fixed asset investment dropped to 54 percent, which was the lowest level since 2010 and a decrease of 2.2 percentage points from 2019 before the pandemic (Figure 7). Recently, China quickly emerged from the pandemic, but the confidence and expectations of households and enterprises still need to be improved. To this end, economic initiatives should focus on improving the sentiment and expectations of society as a whole and boosting the public's confidence in development. In December 2022, the Central Economic Work Conference called for the implementation of the "two unswervings" policy to provide support to the private sector and private businesses and boost their confidence. Local governments are also actively implementing the spirit of the Central Economic Work Conference at their local Two Sessions, where they have highlighted boosting the confidence of market entities, supporting the development of private enterprises, and protecting entrepreneurship as their top priorities for the year. According to the latest statistics, the manufacturing purchasing managers' index (PMI) and the non-manufacturing business activity index rebounded significantly in February 2023, with the former reaching the highest value since May 2012 and small enterprises recording the biggest increase from December (Figure 8) In short, these industries are becoming more prosperous, and the expectations of market entities are improving.

Figure 7: Share of investment by the private sector in total, %



Source: Wind, KPMG analysis

Figure 8: Manufacturing PMI by corporate size, %



Source: Wind, KPMG analysis

In addition, the government is also increasing its focus on the business environment. The Central Economic Work Conference has called for promoting economic development based on the rule of law, protecting property rights and intellectual property rights in accordance with the law, abiding by the spirit of contracts, and reducing institutional transaction costs. In terms of financial subsidies, tax concessions, and government procurement, policymakers have stated that all types of market entities should be treated equally and fairly in order to speed up the development of a market-oriented, law-based and internationalised first-class business environment. With the deepening of the "Reform to Streamline Administration and Delegate Power," a more convenient, efficient and orderly business environment will be enabled, removing obstacles for the operation and development of market entities and provide them with favourable conditions. In the face of the complex and ever-changing international landscape, and given that the Chinese economy is still on the road to recovery, we expect that the Report's emphasis on enhancing the confidence of private enterprises and the business environment will help businesses recover and restore their vitality.

Kicking-off a new round of state owned enterprises reform

In 2022, China completed the three-year action plan to reform SOEs. This year, the Report calls for deepening the reform of state-owned assets and SOEs to enhance their core competitiveness. The government will continue with its categorical approach to SOE reform, encouraging SOEs to fulfil both their economic and social responsibilities and improve their modern corporate governance, while retaining distinctive Chinese features. The new round of reform will focus on promoting high-quality development to strengthen, optimise and expand state-owned assets and SOEs and enhance their core competitiveness and essential functions. According to Zhang Yuzhuo, chairman of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the core competitiveness of SOEs should be improved across four key areas: technology, talent, branding and efficiency. Going forward, the government should encourage SOEs to strengthen their sci-tech capabilities and achieve self-reliance, cultivate and make good use of talents, strengthen brand building and management, and maintain a balance between an effective rise in quality and reasonable growth in quantity[2].

2 SASAC to clarify the focus of a new round of reforms to improve the core competitiveness of SOEs, February 2023, http://www.gov.cn/xinwen/2023-02/25/content_5743240.htm

At the beginning of 2023, SASAC proposed to further optimise the operational indicator system for central SOEs by changing the system of "two profits and four ratios" to "one profit and five ratios." Three major changes have been proposed for the current operational indicator system. First, "Net Profit" has been replaced by "Net Return on Assets" as this measurement closely reflects the capital market's evaluation of return on investment and will enable investors to better understand the performance of SOEs. Second, "Profit Margin of Operating Income" has been replaced by "Cash to Operating Income Ratio" to eliminate the effect of accounts receivable and better measure the quality of a SOE's income. In addition, the annual business goal has also been changed from "two increases, one control and three improvements" to "one increase, one stability and four improvements." This means that total profit growth should exceed that of the national GDP; the asset-liability ratio should remain stable overall; and the net return on assets, labour productivity, R&D investment intensity and the cash to operating income ratio should improve.

Table 2: Changes to key operation target indicators for central SOEs

Two profits and four ratios	One profits and five ratios
Total profits (Increase)	Total profits (Increase)
Net profits (Increase)	Asset-liability ratio (Stable)
Asset-liability ratio (Control)	Net return on asset (Improve)
Profit margin of operating income (Improve)	Cash to operating income ratio (Improve)
R&D investment intensity (Improve)	R&D investment intensity (Improve)
Labour productivity (Improve)	Labour productivity (Improve)

Source: KPMG analysis
Note: Changes to indicators are marked in red

In the past few years, the implementation of the annual operational indicator system for central SOEs has effectively supported their development in line with international standards. The number of SOEs in the world's Fortunate Global 500 top climbed from 65 in 2012 to 99 in 2022. SOEs have also been generating greater economic returns, with a total profit of RMB 2.6 trillion recorded in 2022, doubling the figure recorded in 2012, while the profits of industrial enterprises during the same period only increased by 50 percent. We expect that the new reform plan and operational indicator system will improve the evaluation of SOEs and ultimately strengthen their value creation and sustainable development, make up for their shortcomings, and enhance their core competitiveness.

Facilitating high-level opening up to stabilise foreign trade and foreign investment

Adhering to the path of high-level opening up is the way for China to achieve high-quality development. China can leverage its enormous market and domestic demand to attract global resources, amplify the interplay between domestic and international markets and resources, and raise the quality and level of cooperation in trade and investment. The Two Sessions emphasised the importance of accelerating China's development as a strong trade country while steadying the scale and optimising the structure of foreign trade. Going forward, China will vigorously develop new business models in areas such as cross-border e-commerce and procurement trade, and actively develop digital trade.

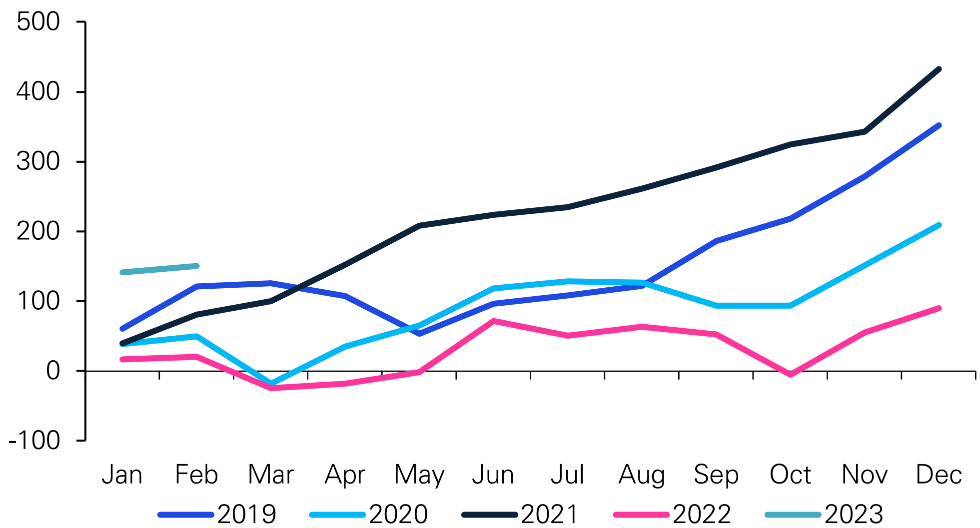
Concurrently, the Two Sessions stressed the need to intensify efforts to attract and utilise foreign investment this year, further expand market access and open up the modern services sector, strengthen services that promote foreign investment, and launch landmark foreign investment projects to secure and even increase foreign investment. It also called for leveraging platforms such as the Hainan Free Trade Port, and various development zones and bonded zones, as testing grounds to promote opening up and draw in foreign investment. Regarding regional cooperation, joint efforts should be made to advance the high-quality development of the Belt and Road Initiative (BRI) and stage major events commemorating its 10th anniversary, including preparing for the third Belt and Road Forum for International Cooperation.

Meanwhile, China continues to support and uphold the multilateral trading system. The country is actively taking steps to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and other high-standard economic and trade agreements such as the Digital Economy Partnership Agreement (DEPA), while also steadily expanding the institutional openness of rules, regulations, management processes, standards.

Amid sluggish global economic growth this year, external demand has weakened significantly, putting considerable pressure on China's exports. Coupled with complex and changing geopolitical landscape and accelerated restructuring of international industrial chains and supply chains, China's foreign trade prospects are somewhat grim. In the first two months of 2023, exports continued to trend downward, declining 6.8% year-on-year. However, China's foreign trade development still has certain structural highlights. For example, with the upgrading of China's industries, economic development and overall strength, the structure of foreign trade commodities has been optimised, and new drivers of trade growth, such as new energy vehicles, lithium batteries and photovoltaic (PV) products, have emerged. Owing to the rapid growth of new energy vehicle exports, China's auto exports exceeded 3 million units in 2022, surpassing Germany to become the world's second largest auto exporter after Japan, and this trend is expected to continue this year. In another example, the BRI and Regional Comprehensive Economic Partnership (RCEP) are promoting growth in regional trade. As a result, China's trade with Central and Eastern Europe and the Association of Southeast Asian Nations (ASEAN) has been gaining momentum, and China's exports to other RCEP members rose by 17.5% last year, accounting for 27.6% of China's total exports.

With respect to foreign investment, China's actual utilisation of foreign capital grew by 8% in 2022, maintaining strong momentum despite greater pressure from internal and external forces. Net inflows of northbound funds (funds flowing from Hong Kong SAR into stock markets in the Chinese Mainland) for the first two months of the year exceeded those in previous years, particularly in January, when net inflows reached RMB 100 billion, the highest ever for a single month and well above the cumulative net inflows for the entirety of 2022 (Figure 9). This surge reflects the rising expectations of investors following the relaxation of China's anti-pandemic measures and the steady appreciation of the renminbi. Overall, with the global economy weakening, competition for foreign investment will become more intense this year, and the task of stabilising foreign investment will remain challenging.

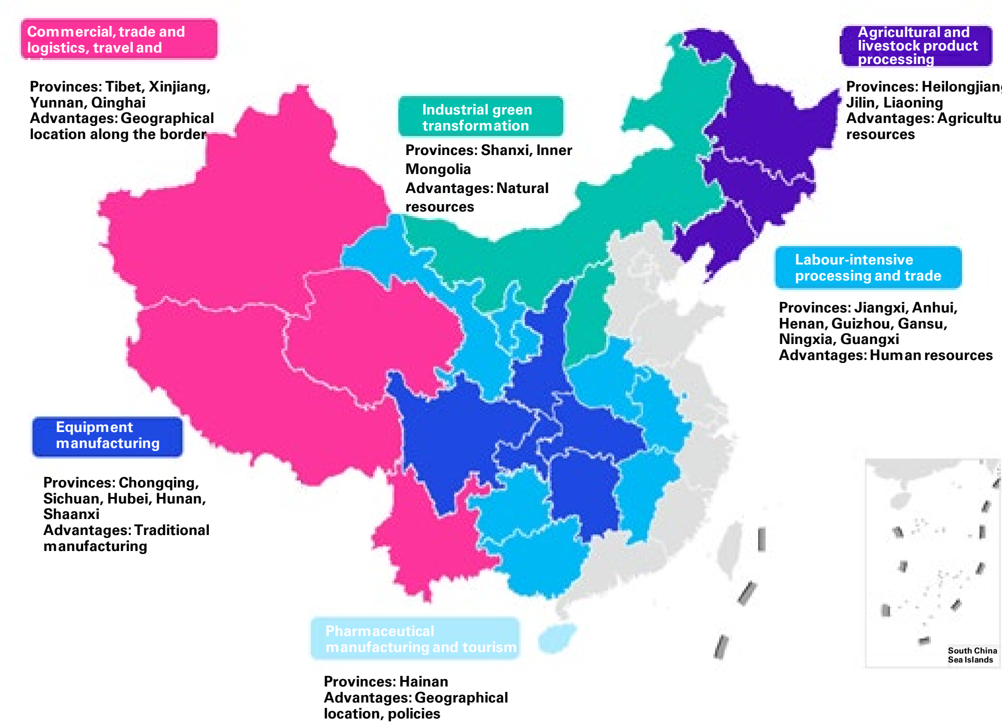
Figure 9: Cumulative net inflows of northbound funds for purchase of stocks in the Chinese Mainland, billions of RMB



Source: Wind, KPMG analysis

In the latest survey conducted by the American Chamber of Commerce in China, 45% of respondents ranked China as a top three investment destination, a decrease of 15 percentage points from last year and the first time this figure has fallen below 50%[3]. In order to improve the business environment and attract greater foreign investment, China has revised the negative list for foreign investment access five consecutive years since 2017, removing or relaxing restrictions on foreign shareholding in service industries such as value-added telecommunications, securities, banking, insurance and art performances. In the future, the country plans to undertake studies to remove and relax additional restrictions to draw more global high-end service providers and resources to China. This year, a new version of the Catalogue of Encouraged Industries for Foreign Investment came into effect, adding over 200 new entries. China has also recently introduced special policies to encourage investment in manufacturing and the establishment of R&D centres by foreign investors, which should guide foreign investment into key areas such as advanced manufacturing, modern services, energy conservation and environmental protection, and technological innovation (Figure 10). Overall, China's huge domestic market, well-developed industrial system, and diligent and innovative workforce remain a strong attraction for foreign investors.

Figure 10: Encouraged Industries for Foreign Investment (2022)



Source: KPMG analysis

3 China Business Climate Survey Report, the American Chamber of Commerce in China, https://www.amchamchina.org/wp-content/uploads/2023/02/BCS2023.pdf

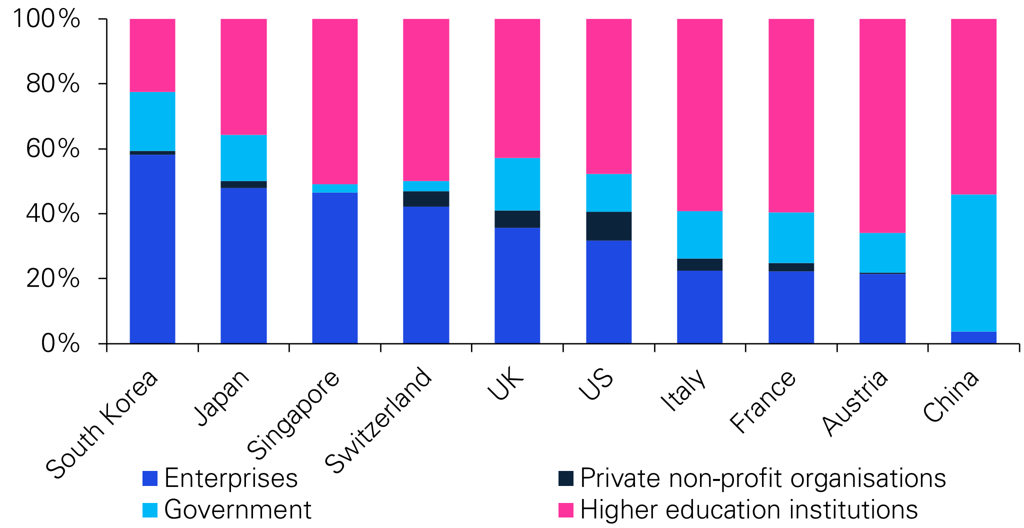
Enhancing fundamental research to boost self-reliance and strength in science and technology

According to the Two Sessions, science and technology policies should focus on self-reliance and improvement, strengthening national strategic capabilities, and implementing an innovation-driven development strategy. Meanwhile, policymakers have stated that technology development should focus on basic research. The Two Sessions stressed strengthening basic research, focusing on manufacturing and other key industrial chains, pooling high-quality resources to promote key technological breakthroughs, and accelerating the iterative application of independent innovative products and independent open-source technologies. The Two Sessions also underlined the need to strengthen the dominant position of enterprises in technological innovation, deepen the integration of industry, academia and research under the leadership of enterprises, enhance the transformation and industrialisation of scientific and technological achievements, create a favourable environment that is conducive to the growth of technology-based MSMEs and their participation in the construction of national innovation platforms, and encourage more high-quality companies to go public on the Science and Technology Innovation Board.

Currently, as the reconstruction of global industrial chains is accelerating, the geopolitical situation remains complex and volatile. To ensure the security of its industrial chains and gain an edge amid international competition, China must strengthen technological innovation and make breakthroughs in frontier areas as well as in underlying key technologies. To this end, in recent years, China has been boosting its investment in basic research. As at the end of 2022, investment in basic research as a share of total R&D spend had exceeded 6% for four consecutive years. Recently, the country has achieved a number of world-class original innovations in basic research fields such as quantum information and brain science, but there is still a large gap between the proportion of investment in China and that in other developed countries. The 14th Five-Year Plan proposes that by 2025, China's basic research funding as a share of total R&D should reach 8% or above. Hence, China is expected to continue to vigorously increase investment and policy support for basic research in key areas in the future.

Meanwhile, the Two Sessions underlined the importance of strengthening diversified investment in technology. At present, over 90% of China's basic research funding comes from the government and universities, while the proportion of investment contributed by enterprises accounts for a mere 3.8%, and the proportion of investment by private non-profit organisations and other social institutions is even smaller. In contrast, in other developed economies, the proportion of corporate investment in basic research is over 20%, and in South Korea it is even close to 60% (Figure 11). In the future, China can incentivise enterprises to invest more in basic research through tax incentives and other means; encourage social institutions to set up science funds and make donations to enhance the effectiveness of the National Natural Science Foundation of China and its joint funds; and establish an effective system for basic research investment that combines competitive support with stable funding to truly spur innovation.

Figure 11: Investment in basic research by sector in 2020,%



Source: The Organisation for Economic Co-operation and Development, KPMG analysis

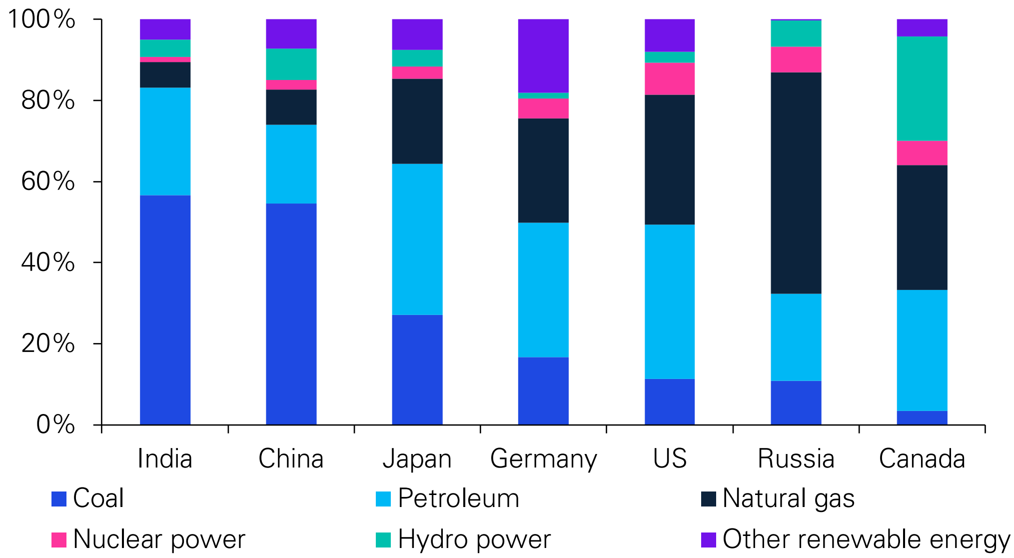
Promoting green development to reach the "dual carbon" goals

The Two Sessions emphasised accelerating the green transformation of development, strengthening the construction of urban and rural environmental infrastructure, and continuing to implement major projects to protect and restore important ecosystems. The Report emphasised that China should vigorously promote energy efficiency and carbon reduction in key sectors, including industry, construction and transportation; resolutely curb blind high energy-consuming and high-emissions development projects; implement comprehensive conservation strategies; and advocate green consumption. Based on its resource endowment, the country should steadily drive its transformation toward carbon neutrality through step-by-step implementation of the "ten actions" in accordance with the principle of "establishing the new before abolishing the old." Fossil fuel use should be controlled in order to better regulate total energy consumption and intensity and gradually shift towards "dual control" over total carbon emissions and carbon intensity.

Going forward, energy security will play an increasingly prominent role in meeting the "dual carbon" goals. The Two Sessions proposed accelerating the planning and construction of a new energy system, strengthening the construction of an energy production, supply, storage and marketing system to better secure the nation's energy supply, and reinforcing the role of coal as an energy supply guarantee for China. In terms of energy production, policymakers have mentioned implementing security measures for various energy resources, including promoting the clean and efficient use of coal and boosting related technology R&D, enhancing the exploration, development, storage and production of oil and gas resources, coordinating hydropower development and ecological protection, and developing nuclear power in a safe and orderly manner. In addition, the Two Sessions discussed carbon market planning, with a focus on improving carbon emission statistics and accounting as well as the trading system for carbon emission rights, and cracking down on carbon data fraud. Finally, policymakers stressed the importance of promoting organic connectivity between green electricity, the green energy certificate market, the carbon market, and the energy consumption control system.

Against the backdrop of global energy supply shocks, the impeded pace of Europe's energy transition, and pressure on the domestic energy supply, the Two Sessions reiterated China's strategic resolve in achieving the "dual carbon" goals, and highlighted the importance of adhering to the timetable and roadmap drawn up according to the "1+N" policy, progressing steadily, and taking into full account the long-term and systematic nature of carbon emissions reduction. Given increasingly frequent extreme weather events and the complex and volatile geopolitical landscape, it is of heightened importance to strike a balance between energy transition and energy security. China should persist in developing new energy sources while also improving the clean and efficient use of traditional sources. Compared with other major energy-consuming countries, China's energy use has long been dominated by coal, which accounts for more than 50% of total consumption (Figure 12). Coal and coal power will remain the most vital domestic energy source for some time to come.

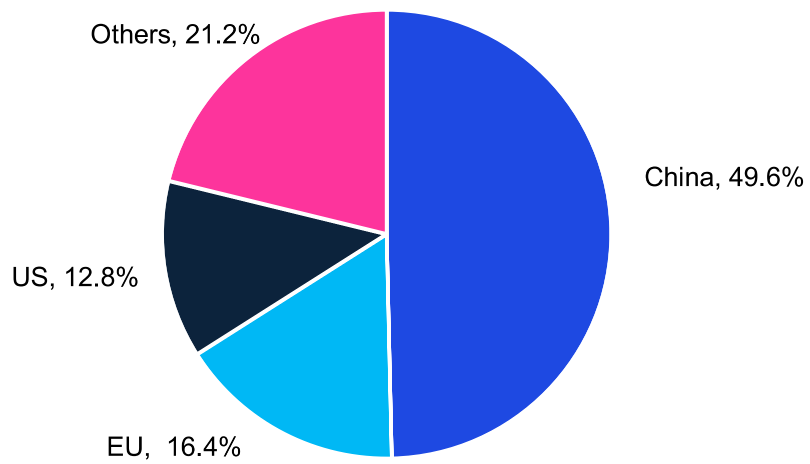
Figure 12: Energy consumption structure by country, %



Source: BP, KPMG analysis

Nevertheless, investment in new energy sources continues to accelerate. According to BloombergNEF's (BNEF) estimates, in 2022, China invested USD 546 billion in its low-carbon energy transition, close to half of the global total and the highest in the world. The investments made by the European Union (EU) in second place and the US in third (Figure 13) lagged far behind. In particular, China leads the world in investment in clean energy technology manufacturing facilities, including those making batteries and related components and solar PV plants, accounting for more than 90% of total global investment in this field[4]. Meanwhile, in order to promote the country's "dual carbon" goals, in 2021, the central bank introduced monetary financial instruments such as the carbon emission reduction supporting tool and special refinancing loans for the clean and efficient use of coal. This year, more economic tools, including fiscal, tax, investment and price instruments, are expected to be rolled out to support green transformation. In addition, the Report to the 20th National Congress proposed developing a new energy system for the first time, and this year's Government Work Report also stressed "accelerating the construction of a new energy system." Going forward, more detailed implementation policies are expected to be issued to promote energy transformation and energy security.

Figure 13: Global share of investment in energy transition by country, %



Source: BloombergNEF, KPMG analysis

4 "Global Low-Carbon Energy Technology Investment Surges Past $1 Trillion for the First Time," 26 January 2023, https://about.bnef.com/blog/global-low-carbon-energy-technology-investment-surges-past-1-trillion-for-the-first-time/

As China continues to pursue its "dual carbon" strategy and launch a national carbon trading market, the government, investment institutions, corporate managers and other stakeholders are placing more requirements on environmental, social and governance (ESG) disclosure, and more and more entrepreneurs are integrating ESG into their development strategies. In recent years, regulations on ESG disclosure in China have been improved, and both the Shanghai Stock Exchange and the Shenzhen Stock Exchange have amended their listing rules to explicitly require listed companies to strengthen information disclosure in respect of environmental and social responsibilities. SASAC has also imposed stricter requirements for special reports on the disclosure of ESG information by listed companies controlled by central enterprises, and it is striving to achieve full coverage in 2023. ESG disclosure provides a basis for transparency and accountability, enabling investors to include ESG factors into their consideration of investment risks and make more agile and forward-looking investment decisions in the face of market changes.

Further advancing the comprehensive registration-based system to improve the modern capital market with Chinese characteristics

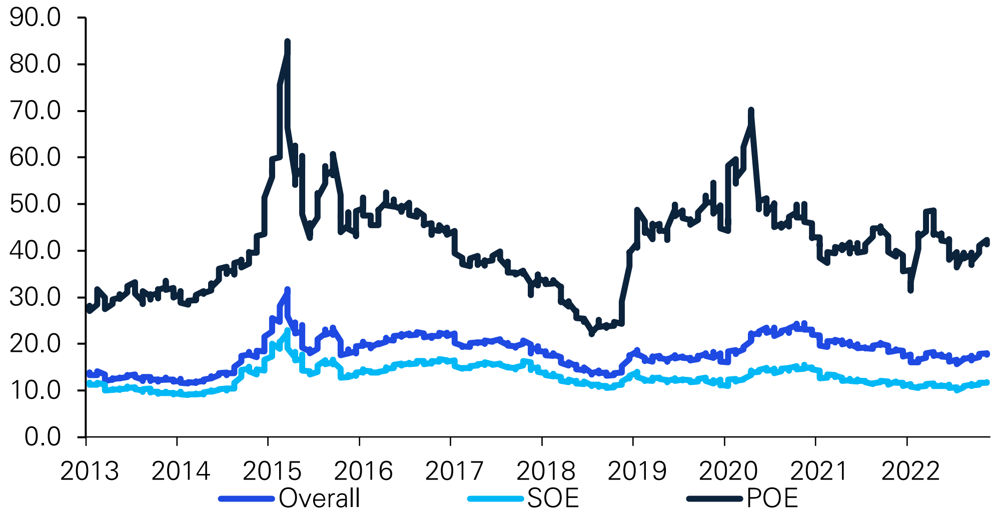
The Two Sessions pointed out that the construction of a modern capital market with Chinese characteristics should be accelerated, and the reform towards the registration-based IPO system should be promoted steadily and thoroughly. China should continue to deepen capital market reform, refine the multi-level capital market system, improve the function of the capital market, and increase the proportion of direct financing.

The reform towards the registration-based system is a key task in building a modern capital market with Chinese characteristics. On 17 February 2023, the China Securities Regulatory Commission (CSRC) issued and implemented policies and rules for the full implementation of the registration system for share issuance, marking the arrival of the era of a fully registration-based regime. Since 2019, the Science and Technology Innovation Board, the Growth Enterprise Market and the Beijing Stock Exchange have successively piloted the registration system, and it was fully implemented in February 2023. After four years of development, China's capital market has completed the transition from approval to registration for share issuance. Driven by the new regime, the number of A-share listed companies exceeded 5,000 in 2022. The amount of funds raised in IPOs reached a record high in 2022, accounting for nearly half of the global total and ranking first globally.

The full implementation of the registration system will bolster China's capital market and significantly shorten the processing time for listing, which will boost the efficiency of the capital market and increase its attractiveness to high-quality companies. In addition, as the main board boasts a more diverse range of enterprises engaging in different industries and at different growth stages, the full implementation of the registration-based regime will enhance the capital market's ability to serve the real economy, support innovation and development, and promote economic transformation, while also increasing the proportion of direct financing. Notably, the system's diversified and inclusive listing conditions do not represent a lowering of issuance standards or a relaxation of regulation. Related service providers must ensure that they fully understand the rules and perform their duties based on comprehensive reviews and judgements of corporate information. At the same time, the full implementation of the registration-based system has placed higher requirements on investors' pricing and risk management capabilities. For this reason, the government needs to enhance investor education, raise investors' risk awareness and provide guidance so that they invest rationally. Put simply, the full implementation of the registration-based mechanism is an important milestone in building a modern capital market with Chinese characteristics.

Exploring the establishment of a valuation system with Chinese characteristics will enable China's capital market to better perform its functions and contribute to high-quality economic development. Valuations directly reflect the market's recognition of listed companies. Over the past decade, the Wind All China Index's median trailing twelve month(TTM) price-to-earnings (P/E) ratio was 18.1, while the median TTM P/E ratio of SOEs, which form an important pillar of the national economy, was a mere 12.5 during the same period (Figure 13). In contrast, the median TTM P/E of CSI Private-owned Enterprises reached 41 during the same 10-year period, significantly higher than that of SOEs. Despite the stable operations and fast growth of SOEs, their median P/E ratio is relatively low, suggesting significant room for growth in the future.

Figure 14: Price-earnings ratios of major equity indictors, trailing twelve months (TTM)



Source: Wind, KPMG analysis

Of course, it is also important to note that SOEs are usually engaged in relatively traditional industries related to people's livelihoods, and they do not necessarily consider maximising economic returns to be their primary goal. Deeper social reasons may be responsible for the difference in P/E ratios between SOEs and private companies, and it is difficult to compare them so straightforwardly. As a result, ensuring that the market properly recognises their growth prospects is an important aspect of SOEs' efforts to promote high-quality development. To improve their market valuations, listed SOEs need to hone their core competitiveness, improve modern corporate governance, and strengthen investor relations management, with a view to enabling the market to gain an understanding of their intrinsic value. Overall, exploring the construction of a valuation system with Chinese characteristics will be conducive to promoting the efficiency of resource allocation in the capital market, improving the capital market's support for the real economy, forming a new development pattern, and promoting high-quality development.

Preventing and mitigating major economic and financial risks

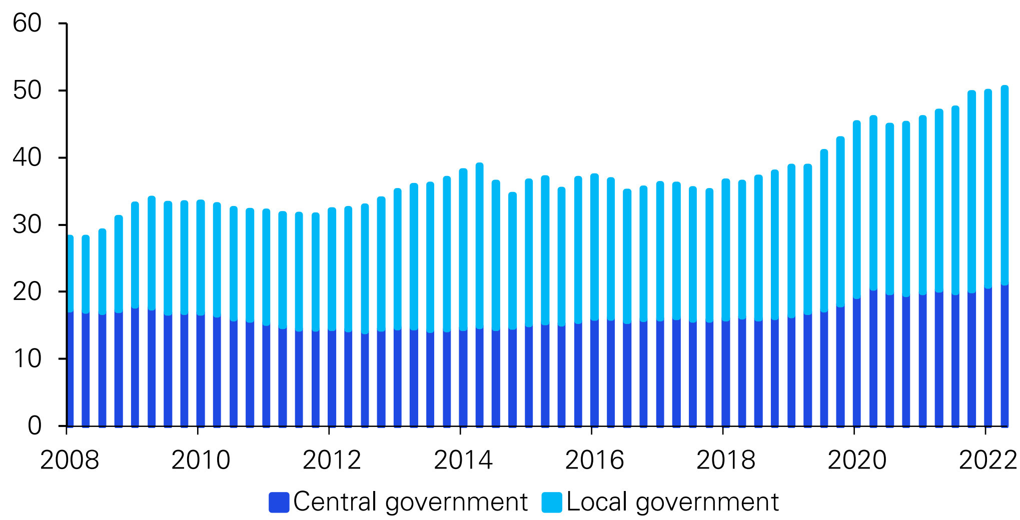
One of the key economic tasks in 2023 is to reduce systemic economic and financial risks, especially in three areas: finance, real estate and local government debt. The Two Sessions affirmed the importance of continuously resolving risks in major institutions; responding to rebounds of non-performing assets; promoting the reform of small and medium-sized banks, insurers and trust institutions in an orderly manner; and tightening financial supervision to prevent regional and systemic risks. Meanwhile, the Report emphasises that China should closely track and analyse any imported risk that may be brought about by international economic and financial fluctuations; attach great importance to downside risk arising from the connectivity between domestic and foreign financial markets; and dynamically adjust response policies and plans.

With respect to the real estate sector, the Two Sessions pointed out that China should make efforts to ensure the delivery of overdue housing projects, while improving people's livelihoods and safeguarding social stability. On the financing front, given the persistent liability risk associated with certain leading property developers this year, the Two Sessions stressed steadily implementing plans to improve the balance sheets of high-quality enterprises in order to prevent and resolve financial risk and promote the sector's stable development. Since the release of a number of measures by the CSRC to optimise and adjust equity financing at the end of 2022, many leading developers have conducted refinancing to improve their capital structure and risk resilience, and they have been taking the opportunity to acquire quality assets from enterprises subject to insurance claims. At the same time, real estate companies have been exploring ways to revitalise their existing operating assets through the issuance of eligible infrastructure REITs and the piloting of privately offered funds. According to the Two Sessions, going forward, China will continue to uphold the principle that "houses are for living in, not for speculation," support people in buying their first homes and improving their housing conditions, help resolve the housing problems of new urban residents and young people, and explore the development of the long-term rental housing market.

To guard against and defuse local government debt risks, the Two Sessions called for improving the mix of debt maturities, reducing the burden of interest payments; and preventing a build-up of new debts while working to reduce existing ones. According to data from the Centre for the National Balance Sheet, the leverage ratio of China's government agencies rose last year, reaching 50.4% by the end of the fourth quarter, representing an increase of 3.6 percentage points compared to the end of 2021. In particular, the leverage ratio of local governments rose significantly, up 2.5 percentage points compared to the end of 2021 (Figure 15), and the pressure on local governments to service their debts and pay interest increased. Mitigating local government debt risks requires strengthening the resolution of hidden local government debt and regulating the management of local government financing platform companies.

KPMG's recent report, New Positioning, New Models and New Opportunities – A Window Period for the Transformation of Local Urban Investment Platforms, puts forward suggestions from the dimensions of comprehensive risk management and special risk monitoring in view of the current risks faced by urban investment platforms relating to governance and control, investment, asset management and business cooperation[5].

Figure 15: Leverage ratios of the Chinese government sector, %



Source: Wind, KPMG analysis

5 New Positioning, New Models and New Opportunities – A Window Period for the Transformation of Local Urban Investment Platforms, KPMG China, March 2023, https://kpmg.com/cn/zh/home/insights/2023/03/new-positioning-new-mode-and-new-opportunity-the-transformation-of-local-urban-investment-platform-ushers-in-a-window-period.html

Facilitating coordinated regional development

The Two Sessions pressed for further implementing the coordinated regional development strategy, major regional development strategies, the functional zoning strategy and the new urbanisation strategy, and for optimising planning for major productive regions to inject fresh momentum for high-quality development. In recent years, China has achieved more balanced and coordinated regional development, supported the country's western region in cultivating industries with distinctive features and advantages, made new breakthroughs in the revitalisation of the northern region, encouraged the central region to develop modern industries backed by advanced manufacturing sectors, and accelerated modernisation in the eastern region. The country has also extensively implemented major regional strategies; promoted the coordinated integrated development of the Beijing-Tianjin-Hebei region, the Yangtze River Economic Belt, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta; fostered ecological conservation and high-quality development in the Yellow River basin; and advanced the construction of Xiong'an New Area and the Beijing Municipal Administrative Centre in line with high quality standards.

The Two Sessions gave emphasis to steadily developing a new type of people-centred urbanisation, making progress in the reform of the household registration system in a steady and orderly manner, and promoting more equal access to basic public services in cities and towns. Recently, China has steadily supported the well-ordered development of city clusters and metropolitan areas and the coordinated development of cities of different sizes. Efforts have also been made to develop the Chengdu-Chongqing economic zone and deepen the urbanisation of counties. Overall, in recent years, urban planning, urban construction and urban governance have been improving, which has allowed for the development of resilient, smart cities and higher-quality living.

China has a vast territory, and each region possesses its own comparative advantages and follows a differentiated development path. Under the new development pattern, promoting a coordinated regional development strategy is conducive to eliminating barriers to the flow of capital, labour, technology, data and other factors between regions; fostering a reasonable flow and efficient clustering of various factors; promoting the formation of a regional economic layout, complementary advantages and high-quality growth; narrowing regional development gaps; and bringing more investment and development opportunities for enterprises. The current coordinated regional development strategy focuses on promoting the regional integration of the Beijing-Tianjin-Hebei region, the Yangtze River Economic Belt and the Yangtze River Delta, as well as improving coordinated development planning for cities of various sizes and small towns, and gradually solving various challenges in the process of urbanisation. Going forward, the urbanisation of counties can compensate for the urbanisation system's shortcomings, prevent the over-concentration of resources in big cities, and further integrate urban and rural areas.

The Guangdong – Hong Kong SAR – Macau SAR Greater Bay Area offers a great opportunity for Hong Kong SAR to integrate into the overall national development plan. Hong Kong SAR can complement China's international economic and trade strategies by leveraging its strengths in international finance, trade, shipping, aviation, innovation and technology, as well as in cultural tourism, and share more dividends from its participation in the national economic blueprint. In recent years, the growing interconnectivity between the Chinese Mainland's and Hong Kong SAR's financial markets and infrastructure has contributed significantly to the opening up and innovation of the country's financial sector and the internationalisation of the renminbi. Statistics show that for three consecutive years, the renminbi has been the most important cross-border settlement currency in the Greater Bay Area. Last year, Guangdong Province's cross-border RMB settlement with countries along the Belt and Road amounted to RMB 744.39 billion, up 34.2% year-on-year, while such settlement with RCEP countries amounted to RMB 730.61 billion, representing an increase of 22.5% year-on-year.

Going forward, Hong Kong SAR will strengthen interconnectivity with capital markets in the Chinese Mainland, and its role as an international financial centre will be fortified amid the synergetic development of the Greater Bay Area. With the resumption of normal travel between Hong Kong SAR and the Chinese Mainland this year, the number of visitors and business travellers entering Hong Kong SAR from the Chinese Mainland is expected to rebound sharply from the trough of the past three years, driving an accelerated recovery in the city's local retail, catering, tourism and business sectors, and providing impetus to the city's economic recovery.

Improving people's well-being

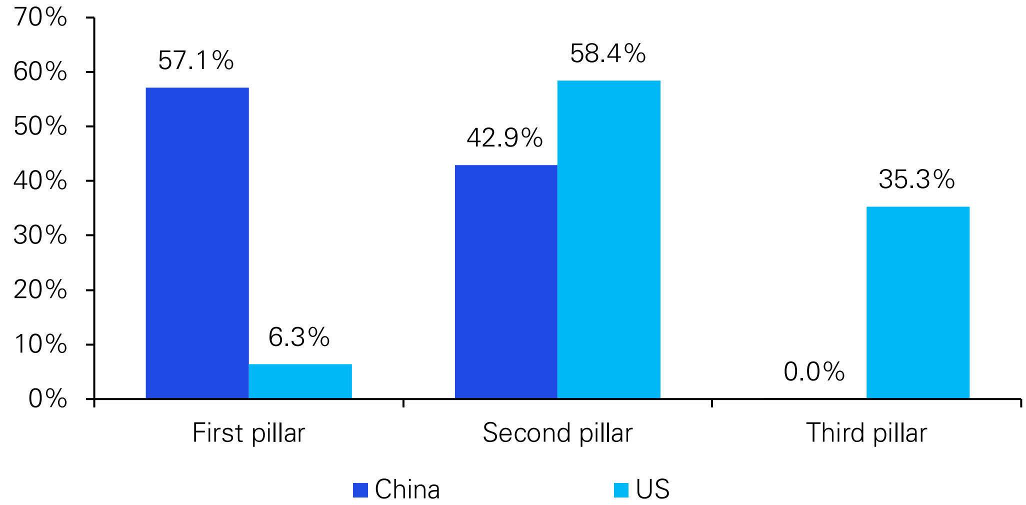
The Report prioritises meeting basic living needs and developing social programmes. In the area of elderly care, China will implement a national strategy to address issues related to the ageing population, with the goal of ensuring the availability of elderly care services and protecting the legitimate rights and interests of the elderly. In terms of healthcare, the Report proposes to deepen the reform of the pharmaceutical and healthcare systems and promote the coordinated development and governance of medical insurance, medical services, and pharmaceuticals. In 2023, more quality medical resources will be made available and weighted toward the community level, and they will be distributed more evenly among regions.

In 2022, China's total population declined for the first time since 1961. A lower birth rate and accelerating ageing are two major challenges facing China, and more aggressive population policies are expected to be adopted this year. They include refining the supportive childbirth policy, gradually extending the statutory retirement age when appropriate, and responding to the challenges of an ageing population and sub-replacement fertility. Looking ahead, adopting a more proactive population policy to encourage childbirth and reduce child-raising costs is of great practical importance to the long-term development of the nation's population.

As at the end of 2022, China had 280 million people aged 60 and above, accounting for 19.8% of the total population; and people aged 65 and above exceeded 200 million, accounting for 14.9% of the total population. In this context, it is imperative to strengthen the social security system and develop a multi-level and multi-pillar old-age insurance system. As at the end of 2021, among the three pillars of the pension system in China, the accumulated balance of basic old-age insurance funds (the first pillar) stood at RMB 6.4 trillion; the accumulated balance of enterprise and occupational annuities (the second pillar) was approximately RMB 4.5 trillion; and that of private pensions (including personal savings pension insurance and commercial pension insurance) (the third pillar) was around RMB 1 billion. The percentage shares of the three pillars were 57.1%, 42.9% and 0.01% respectively, compared to 6.3%, 58.4% and 35.3%, respectively, in the US (Figure 16).

In November 2022, China launched its private pension system. Individuals can now open pension accounts with commercial banks and use these accounts to contribute to their pensions and purchase eligible financial products. As at the end of 2022, the total amount of private pension contributions reached RMB 14.2 billion, a significant increase over the previous year. The launch of this system will expedite the construction of the third pillar of the old-age insurance system.

Figure 16: Shares of the three pillars in China and US's retirement insurance (2021), %

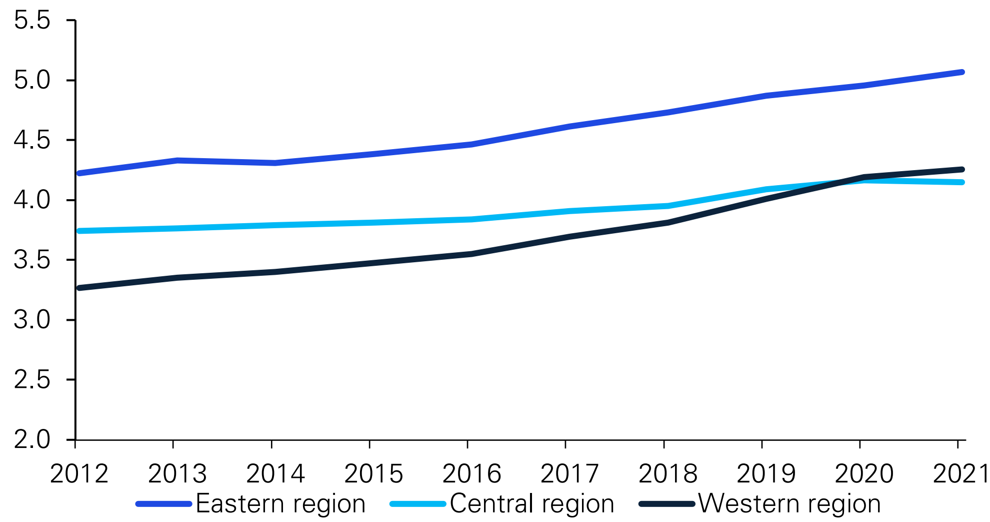


Source: The Ministry of Human Resources and Social Security, the Investment Company Institute, KPMG analysis

From the perspective of medical care, China's medical resources are unevenly distributed, and the medical system in rural and remote areas is underdeveloped. As a result, increasing medical resources and implementing graded and classified diagnosis and treatment are among the key focuses for future medical reform. Statistics show that as at the end of 2021, China had more than 4.43 million primary medical personnel and more than 970,000 primary medical institutions, respectively, representing an increase of over 1.05 million persons and nearly 60,000 institutions, respectively, compared to 2011. The relatively fast growth in the number of primary medical personnel and institutions has enhanced the country's ability to diagnose and cure common and frequent diseases.

Notably, primary medical human resources are unevenly distributed between cities and rural areas and also between regions, and cannot meet the needs of urban and rural residents. In cities and rural areas, in 2021, the proportion of medical personnel with a bachelor's degree or above in primary medical institutions was 44.0% in cities, compared with 24.0% in rural areas. In the eastern, central and western regions, the numbers of general practitioners per 10,000 people were 3.7, 2.7 and 2.5, respectively; and on average there were 5.1, 4.1 and 4.3 medical personnel in each primary medical institution in these regions. These figures show that a significantly higher proportion of primary medical resources has been allocated to the eastern region compared to the central and western regions (Figure 17). In the future, the government may strengthen the training of primary medical personnel and steadily increase the capacity of primary care doctors through the three-tier diagnosis and treatment system and medical associations, so as to build a more flexible and resilient primary healthcare system. These efforts will not only help meet people's daily medical needs, but also cope with major public health incidents that may occur.

Figure 17: Average number of medical personnel per primary medical institution by region



Source: Wind, KPMG analysis

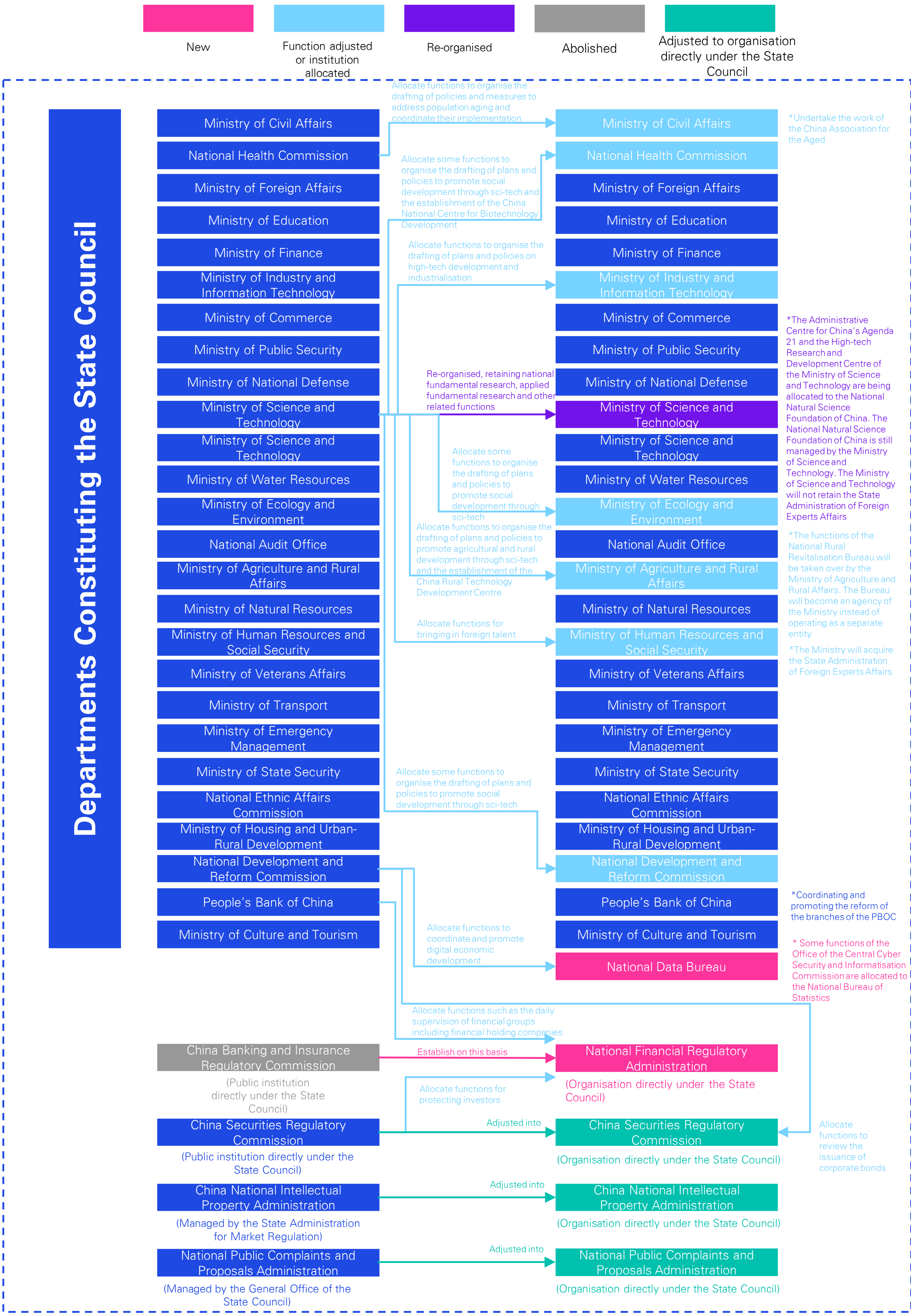
Implementing a new round of institutional reform of the State Council

During the Two Sessions, the National People's Congress voted and passed a decision on the State Council's institutional reform plan (Figure 18). The plan focuses on optimising and adjusting the functions of certain agencies in key areas such as science and technology, financial supervision, data management, rural revitalisation, intellectual property rights, and ageing-related work. The reform will make the institutional structure more reasonable, optimise the State Council's functions and organisation, and raise the efficiency of government operations.

First, the Ministry of Science and Technology will be re-established to optimise the functions of various departments, bolster the national innovation system, and boost the country's self-reliance and capabilities in science and technology. Second, the following six initiatives have been proposed to reform financial regulatory bodies: establishing the National Financial Regulatory Administration based on the China Banking and Insurance Regulatory Commission, deepening the reform of the local financial regulatory system, positioning the China Securities Regulatory Commission directly under the State Council, coordinating and advancing the reform of the People's Bank of China's entities, improving the management of state-owned financial capital, and strengthening the unified and standardised management of financial administration agencies' personnel. Ultimately, these initiatives aim to reshape the financial supervision system, increase regulatory efficiency and enhance these departments' ability to prevent and resolve risks.

Third, the National Data Bureau will be set up under the National Development and Reform Commission to coordinate the construction of data infrastructure, the integration, sharing, development and utilisation of data resources, and the planning and construction of a digital China, a digital economy and a digital society. This new bureau will strengthen the construction of data-related systems, open up data links, integrate data resources, realise the efficient use and sharing of data, and maximise the value of data, which represents an important new factor of production.

Figure 18: Diagram of key changes to the State Council's institutional reform plan



Source: Chinese government websites, KPMG analysis

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