

# INDSR

# Newsletter

## China Observation



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# Xi Jinping's Second Institutional Reform: A Security Perspective Analysis

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## 1. News Highlights

The First Session of the 14<sup>th</sup> National People's Congress of China took place on March 2023. In addition to receiving work reports from the State Council and other state agencies and deciding on the leaders of the state, the important agenda includes reviewing and voting on the draft Legislative Law and the Reform Program of the State Council (referred to as the "Reform Program" hereafter).<sup>1</sup> After a process of explanations and reviews, the National People's Congress voted on March 10th to approve the

Reform Program. According to the Reform Program, the State Council will establish two departments: the State Financial Supervision and Administration Bureau and the National Data Bureau, reorganize or adjust four units: reorganize the Ministry of Science and Technology; upgrade the China Securities Regulatory Commission, the National Public Complaints and Proposals Administration, and the State Intellectual Property Bureau to report directly to the State Council. In addition, the overall staffing of the central governments is streamlined by 5%.<sup>2</sup>

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1. On February 21, 2023, the Politburo of the CPC Central Committee discussed the draft "Party and State Organization Reform Program." The Second Plenary Session of the 20th Central Committee held from February 26 to 28 reviewed and approved the Party and State Organization Reform Program, but its communiqué only stated that the Plenary agreed to submit "some of the contents" of the program to the National People's Congress according to legal procedures. The National People's Congress meeting agenda shows that only the "State Council Organization Reform Program" was sent for review without the Party's program. See "Agenda of the First Session of the 14th National People's Congress," *The Chinese People's Congress Website*, March 4, 2023, <https://reurl.cc/b7EAbv>.
  2. "State Council Organization Reform Program," *People's Daily Online*, March 11, 2023, <https://reurl.cc/EG1MMg>.

## 2. Security Implications

In March 2018, Xi Jinping carried out the first “reform of the CCP and state institutions” during his term of office, significantly adjusting the organization and functions of the State Council. Some State Council departments were incorporated into the CCP system or substantially controlled by the Party, resulting in a hollow-out of State Council agencies.<sup>3</sup> Many committees of the CCP Central have offices located in government departments. For example, the Central Committee for the Comprehensive Rule of Law is in the Ministry of Justice, and the Central Audit Commission is in the Department of Audit. These State Council departments have since become the executive bodies of the Central Committee. As a result, the State Council, the highest state executive branch of

China, and Premier Li Keqiang have been weakened for the CCP to strengthen its lead to the government.

This year, the State Council's institutional reform program has been sent to the National People's Congress for consideration, while the Party's reform program might not have been submitted. The official State Council Institutional Reform Program focuses on finance, technology, and data management in attempts to enhance technology and financial competitiveness through institutional restructuring in response to increasing competition from the West. This article focuses only on the security aspect of the State Council reform and analyzes it as follows.

### 2-1. Strengthening information and social security control

The National Data Bureau to

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3. For example, the National Academy of Governance under the State Council was merged into the Central Party School of the CCP, which oversees civil service training; the National Civil Service Administration was merged into the CCP Central Organization Department. The Overseas Chinese Affairs Office and the State Administration for Religious Affairs were merged into the United Front Work Department; the National Ethnic Affairs Commission was “placed under the leadership of the United Front Work Department” but “remains a constituent department of the State Council.” The CCP Publicity Department of the Central Committee, on the other hand, has several other titles, such as the Information Office of the State Council, the National Press and Publication Administration, the National Copyright Administration, and the China Film Administration attached and act on behalf of these organizations, only mentioning these titles when the official seals are required.



be established will be responsible for coordinating and promoting the “construction of data infrastructure” and coordinating “data resource integration, sharing, development, and utilization.” The purpose is to integrate the current practice of monitoring various data types by different departments, such as the State Internet Information Office, the Ministry of Industry and Information Technology, and the National Development and Reform Commission, to have the National Data Bureau centrally unify the management, development, and utilization for efficient monitoring. Bloomberg reported that the National Data Bureau would help the Chinese government control data collected in the economic or industrial sectors.<sup>4</sup> In addition, the National Data Bureau may also respond to potential threats from new data collection and transmission forms. For example, when electric vehicles are connected to low-orbit satellite communications, much of the data can be transmitted overseas

by circumventing the Chinese firewall. It is a national strategic security issue for China to make all kinds of collected data available for its own use and to curb the dissemination of “detrimental” data.

The National Public Complaints and Proposals Administration is now responsible for handling letters, calls, and petitions from the public and various organizations (previously managed by the State Council Office) and will be promoted to an agency directly under the State Council to “thoroughly implement the Party’s policy for the masses in the new era, strengthen and improve the handling of people’s opinions, and better protect the fundamental interests of the people.” The promotion is generally believed to be related to the increasing number of large-scale protests and demonstrations in recent years. In the past, the National Public Complaints and Proposals Administration did not play the role of a “public opinion collector.” The recent promotion may allow the

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4. Many analysts have pointed out the reasons that CCP has cracked down on large private companies and entrepreneurs in recent years. In addition to the concerns about their enormous influence, CCP needs access to the sensitive information controlled by these companies. See William Yang, “Why is China Cracking Down on Famous Entrepreneurs?” *Deutsche Welle*, March 2, 2023. <https://reurl.cc/RvWX1r>; “China Shakes up Technology, Data Regimes to Counter US Curbs,” *Bloomberg*, March 7, 2023, <https://reurl.cc/V8NDAY>.

Administration secretary to report directly to the Premier of the State Council to facilitate the escalation of public opinions and enhance the government's understanding and control of social discontent. Whether there will be further implementation of "the Party's policy for the masses in the new era" remains to be seen.

## **2-2. It's hard to cover the fact that the State Council is weakened again**

On the eve of the National People's Congress, Hong Kong's Ming Pao and other media revealed that China's institutional reform would include the separation of the Ministry of Public Security and the Ministry of State Security from the State Council system and their transfer to the newly established "CCP Central Committee of Internal Affairs." The new committee will integrate the functions of public security, immigration, household registration, transportation, anti-terrorism, and social organization management of the Ministry of Civil Affairs to become a "super police agency." In the information released by the National People's Congress, there is little mention of the party's institutional reform. However, with the confirmed personnel

arrangement of the Two Sessions (the leadership of the State Council has been almost entirely taken over by Xi Jinping's loyalists) and the upcoming establishment of various central committees, the powers of the State Council will certainly be further weakened.

For example, on March 7, Xiao Jie, secretary of the State Council, explained the institutional reform by mentioning that the Central Committee for Science and Technology will be established in the "Party and State Organization Reform" and "the responsibilities of the offices of the Central Committee for Science and Technology will be entirely assumed by the reorganized Ministry of Science and Technology." More CCP central committees are expected to be set up next and take control of the State Council departments. For example, if the rumors of the CCP "Central Financial Committee" establishment are true, the newly formed State Financial Supervision and Administration Bureau of the State Council will become its executive office. If the Central Committee of Internal Affairs is established, it may take control of the Ministry of Public Security, the Ministry of State Security, and other State Council departments. The fact that the

functions of the State Council have been weakened again and that power has been further tilted toward Xi Jinping and the CCP Central can no longer be hidden under the carpet.<sup>5</sup>

### 3. Trend Observation

Since China's reform and opening up, Deng Xiaoping has promoted the separation of CCP and government responsibilities, giving government agencies more authority over policy planning and implementation to professionalize government bureaucrats for improved governance effectiveness. But under the Xi Jinping administration, the lines between CCP and the Chinese government are becoming increasingly blurred. The current institutional reform program is another indication that the CCP has deviated even further from Deng Xiaoping's path.

#### 3-1. National security through institutional reform is unlikely

In the 20th National Congress report, Xi Jinping mentioned "security" 91 times and emphasized risks far more than opportunities, reflecting his strong insecurity. These risks and threats come not only from outside but also from all levels within, especially from the discontent within the CCP. On January 9, 2023, Xi Jinping, in a speech at a meeting of the Central Commission for Discipline Inspection, demanded that "the Party should not stop promoting comprehensive and strict governance at any moment" and "we must always maintain the sobriety and determination to solve the difficult problems unique to a large party." In a February 24 meeting of national discipline inspection cadres, Li Xi, secretary of the Central Discipline Inspection Commission, responded to Xi Jinping's unease by declaring that he would "firmly clean up the inside," "rectify and purify the organizations, plucking out the rotten

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5. Bloomberg reported on March 7 that the financial system, formerly under the State Council, may be relocated under the CCP's "Central Financial Committee" (which led the financial system from 1998 to 2003) and headed by Ding Xuexiang, a close associate of Xi Jinping to facilitate further control of the financial system from the top of the CCP. The Ministry of Public Security and the Ministry of State Security will also be led by the newly established CCP Central Committee of Internal Affairs headed by Wang Xiaohong, the current Minister of Public Security and a close confidant of Xi Jinping.

flesh from the inside with a knife,” and “truly reassure the Party Central and General Secretary Xi Jinping.”<sup>6</sup> It seems to mean that “deepening the institutional reform” is regarded as a solution. From the Central Politburo meeting on February 21 to the Second Plenary Session of the 20th Central Committee at the end of February and then to the National People’s Congress meeting, institutional reform was still the core agenda.

Just as Xi Jinping’s “general national security concept” covers more than 15 types of security, Xi seems to be striving for security in all aspects. However, security challenges at all levels, both domestic and international, cannot be simply solved by the institutional reform of the CCP and State Council. The absence of “CCP organization reform” and the highly regarded “Central Committee of Internal Affairs” at the Two Sessions might be because it is not part of the government but a part of the CCP system;

therefore, it’s not required to be submitted to the National People’s Congress for discussion. If this is the case, it will likely be considered and voted on by the Central Committee members at the Third Plenary Session of the 20th Central Committee in the fall of 2023. If Xi does not respect the organizational procedures, it could be decided directly by Politburo.

### **3-2. Is China’s governance moving towards modernization or degradation?**

The Central Politburo meeting in February 2023 pointed out that the 20th Party Congress made important arrangements for “deepening institutional reform” to strengthen the “centralized and unified leadership of the CCP Central” and promote “modernization of the national governance system and capacity” to adhere to the general keynote of “seeking progress while maintaining stability.”<sup>7</sup> But what does “centralized and unified

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6. “Li Xi Stressed at the Mobilization and Deployment Meeting of the National Discipline Inspection and Supervision Cadres to Carry out the Education and Rectification in the Spirit of Thorough Self-revolution to Create Powerful Discipline Inspection and Supervision Troops that are Loyal, Clean, Responsible, and Daring to Struggle,” *Xinhua Net*, February 24, 2023, <https://reurl.cc/EGX471>.

7. “The CCP Central Politburo Convened A Meeting for the Second Plenary Session of the 20th CPC Central Committee, with CCP General Secretary Xi Jinping Presiding over the Meeting,” *Xinhua Net*, February 21, 2023, <https://reurl.cc/rLRj64>.



leadership of the CCP Central” mean? Does it mean that members of the Central Politburo, the Secretary of the Secretariat, the Standing Committee of the National People’s Congress, the State Council, the Party members of the National Committee of the Chinese People’s Political Consultative Conference, the Supreme People’s Court, and the Party Secretary of Supreme People’s Procuratorate must report in writing annually to the CCP Central and General Secretary Xi Jinping, the core Party leader that holds dozens of titles? Does “modernization of the national governance system and capacity” mean the CCP Central and Xi would hold all the authorities to lead the weakened State Council, the National People’s Congress, the Chinese People’s Political Consultative Conference, and other government agencies with an extremely powerful CCP Central and a “new state-wide system”?

After the “Party and State Council institutional reform” in 2018 and this year, Xi has gradually strengthened his absolute control over power in the executive, national security, military, police, and public security systems. In other words, the “separation of party and government” pursued after China’s reform and

opening up has been almost completely subverted. It seems that Xi’s pursuit of “top-level design” and “modernization of governance” will culminate in his “one-man era” and “strong party and weak government,” with which the CCP’s governance will suffer degradation to the Mao Zedong era.

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## Xi Jinping's Second Institutional Reform: A Security Perspective Analysis



# China's Two Sessions and the Future of Private Economy

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The annual Two Sessions are an occasion for members of the Chinese Communist Party's Politburo Standing Committee to participate in discussions and release policy signals. This year (2023), Xi Jinping not only took part in the deliberation of the Jiangsu delegation at the National People's Congress but also attended the joint group meeting of the China National Democratic Construction Association(CNDCA) and the All-China Federation of Industry and Commerce(ACFIC). From Xi Jinping's remarks during the meetings, it is evident that the development of the private economy will be the economic focus of the CCP this year.

## **Boosting the private economy is seen as a solution to China's economic woes**

At the Central Economic Work Conference in December 2022, Xi Jinping pointed out that the economic tasks for the upcoming year in China are numerous, with the priority being to boost consumption, strengthen government investment, stabilize export volumes to developed countries, and thereby improve the problem of insufficient aggregate demand.<sup>1</sup> After more than 45 years of reform and opening up, private enterprises have made significant contributions to maintaining economic momentum, providing employment opportunities,

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1. Xi Jinping, "Several Major Issues in Current Economic Work," *qstheory.cn*, March 4, 2023, [http://www.qstheory.cn/dukan/qs/2023-02/15/c\\_1129362874.htm](http://www.qstheory.cn/dukan/qs/2023-02/15/c_1129362874.htm).

boosting consumption, tax revenues, and technological innovation.<sup>2</sup> However, after three years of strict epidemic prevention and control measures across the country, private enterprises have suffered huge losses, which has led to China's sluggish economic performance. In the spring of 2022, the Yangtze River Delta region suffered from the impact of the Omicron variant of COVID-19, causing GDP growth to be lower than expected, with a growth rate of only 3%, far below the set target.<sup>3</sup> Given the importance of the private economy to China's economic growth, its performance after the lifting of epidemic restrictions will play a crucial role in China's economic work this year. Xi Jinping stated at the joint group meeting of the CNDCA and the ACFIC that "we must actively promote the important role of private enterprises

in stabilizing employment and increasing incomes."<sup>4</sup> China's official media and scholars have also argued that supporting the development of private enterprises is necessary to solve unemployment problems.<sup>5</sup> We can see that the Chinese Communist Party has released the development of a prosperous private economy as a solution to escape the current economic predicament. Boosting the private economy should be a part of this year's economic policies.

### **Private enterprises must adhere to the concept of "high-quality development" and serve China's socialist modernization**

For the Chinese Communist Party, "high-quality development" is not only the axis of the 14<sup>th</sup> Five-Year Plan and the future of China's economic work but

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2. "China's Two Sessions: Private Enterprises Grow on China's Fields of Hope," *people.cn*, March 1, 2023, <http://politics.people.com.cn/BIG5/n1/2023/0301/c1001-32633714.html>.
  3. "2023 Government Work Report," *gov.cn*, March 5, 2023, <http://www.gov.cn/zhuanti/2023lhzfzgbg/index.htm>.
  4. "Xi Jinping, While Visiting Members of the DAB and the ACFIC Who Attended the CPPCC Meeting, Stressed the Importance of Correctly Guiding the Healthy Development of the Private Economy and Its High-quality Development," *people.cn*, March 7, 2023, <http://lianghui.people.com.cn/2023/n1/2023/0307/c452482-32638205.html>.
  5. "The Target of 12 million New Jobs: Experts Suggest Vigorous Development of the Private Economy to Promote Employment," <https://www.yicai.com/>, March 5, 2023, <https://m.yicai.com/news/101692636.html>; Xiong Li, "Can We Increase 12 Million New Jobs?" *ce.cn*, March 8, 2023, [http://www.ce.cn/xwzx/gnsz/gdxw/202303/08/t20230308\\_38430685.shtml](http://www.ce.cn/xwzx/gnsz/gdxw/202303/08/t20230308_38430685.shtml).

is also related to the overall situation of China's socialist modernization.<sup>6</sup> During this year's Two Sessions, Xi Jinping attended the joint group meetings of the CNDCA and the ACFIC. Apart from reaffirming that private enterprises and entrepreneurs are "our people" and calling for private companies to "lighten their load and boldly develop," he emphasized the need for private enterprises to pursue high-quality development consciously. Xi urged private enterprises to shift their development methods and abandon the mindset of extensive economic development of the past.<sup>7</sup> Based on the above, if the Chinese Communist Party attempts to change the country's economic development model, given the importance of the private economy to China's economic development, private enterprises

must also embark on the path of "high-quality development." Otherwise, the CCP may fall short of its goal of building a socialist modern country.

### **The CCP has included private enterprises as a crucial part of safeguarding national economic security**

During this year's Two Sessions, Xi Jinping directly criticized the US's technological containment of China, which has cast a shadow on China's development. He believes that only through technological self-reliance and innovation can China go beyond external pressures and achieve a comprehensive socialist modernization.<sup>8</sup> The CCP is acutely aware of the US's efforts to weaken China's economic strength by

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6. Xi Jinping, "Unite to Achieve the Goals and Tasks Set by the 20th Party Congress," *qstheory.cn*, December 31, 2022, [http://www.qstheory.cn/dukan/qs/2023-02/15/c\\_1129362874.htm](http://www.qstheory.cn/dukan/qs/2023-02/15/c_1129362874.htm).

7. "Xi Jinping, While Visiting Members of the DAB and the ACFIC who Attended the CPPCC Meeting, Stressed the Importance of Correctly Guiding the Healthy Development of the Private Economy and Its High-quality Development," *people.cn*, March 7, 2023, <http://lianghui.people.com.cn/2023/n1/2023/0307/c452482-32638205.html>.

8. "Xi Jinping, While Visiting Members of the DAB and the ACFIC Who Attended the CPPCC Meeting, Stressed the Importance of Correctly Guiding the Healthy Development of the Private Economy and Its High-quality Development," *people.cn*, March 7, 2023, <http://lianghui.people.com.cn/2023/n1/2023/0307/c452482-32638205.html>.; "Xi Jinping Stressed the Importance of Firmly Grasping the Primary Task of High-quality Development When Participating in the Deliberations of the Jiangsu Delegation," *people.cn*, March 6, 2023, <http://lianghui.people.com.cn/2023/n1/2023/0306/c452482-32637372.html>.



targeting its technological advancements. If the US-China competition remains unchanged, China's future economic security will rely on the degree of technological independence it can achieve.

Compared to Xi's speech at the 2016 Two Sessions, where he addressed the joint group meeting of the China National Democratic Construction Association and the All-China Federation of Industry and Commerce of Private Enterprises, the government has put more emphasis on private enterprises during these times of "profound and complex changes in the international and domestic environment" and called for "solidarity and unity." The CPPCC members appointed at this year's Two Sessions represent emerging strategic industries such as electric vehicles, semiconductors, and artificial intelligence, as opposed to the retired representatives from the internet and real estate industries, such as Ma Huateng of Tencent, Ding Lei of NetEase, Li Yanhong of Baidu for the former and Tu Jiayin of Evergrande Group for the latter.<sup>9</sup> The CCP is no longer solely focused on solving

institutional problems facing private enterprise development but is also trying to mobilize private enterprises to assist the country in strengthening its economic security: Capable and qualified private enterprises must strengthen independent innovation and play a greater role in achieving technological independence.

The CCP's reaffirmation of the importance of the private economy during the Two Sessions refutes doubts about the "the state advances, the private sector retreats" caused by state-owned enterprises acquiring private enterprises or strengthening regulation in specific industries. The article believes that the CCP can't threaten the survival of private enterprises, but it intends to have a tighter grip on these strategic industries. The CCP is not shy about including private enterprises in the National Technological Innovation System. Although the domestic private enterprises may risk western countries' technological cutting off, it may also indicate that the CCP believes that the U.S.-China technological decoupling is irreversible and that they plan to rely

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9. Chen Zhenglu, "47 Tycoons Have dDopped from China's National People's Congress and A Large Number of Internet Giants Bid Farewell to the Political Arena," *udn.com*, March 5, 2023, [https://money.udn.com/money/story/5603/7010957?from=edn\\_newest\\_index](https://money.udn.com/money/story/5603/7010957?from=edn_newest_index).

on their own people. It is worth noting that the CCP is not only fully committed to breaking through the technological barriers but is also planning to establish a new ecosystem to overtake the current technological leaders and achieve true technological independence.

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