

Weekly China Insight

Beijing, 6 March 2026

Special Two Sessions Edition

Two Sessions open in Beijing to articulate the policy priorities for the next five years

On 4 March, China's annual Two Sessions opened in Beijing, with Premier Li Qiang delivering his Government Work Report to the assembly of the national legislature (NPC) the next day. The Two Sessions is the annual concurrent gatherings of the NPC and China's top advisory body (CPPCC), where important policy priorities and the government's agenda are discussed and reviewed for the year ahead. This year's Two Sessions carry particular significance because 2026 marks the first year of China's next five-year plan period, the 16th Five-Year Plan, outlining China's development path from 2026 to 2030. While the formal plan will be finalized later, the NPC will review and approve a draft version of the plan at its gathering.

The Two Sessions are more than just an annual political gathering. They function as a strategic roadmap for China's policy direction. This year's meetings are particularly important as they not only will produce a Government Work Report (GWR) that lays the policy goals and directions for this year, but also set the tone for the next phase of economic planning. The gatherings will reveal how Beijing to balance growth, technological self-reliance, and economic security amid an increasingly uncertain global environment.

China lowers GDP growth target for 2026

On 5 March, the Chinese government set a GDP growth target of 4.5–5% for 2026, according to the Government Work Report (GWR) delivered by Premier Li Qiang at the annual meeting of the NPC. The target is lower than the "around 5%" goal set over the past three years. According to officials, the lower GDP growth target is framed as having two objectives of achieving growth within the range while striving for better results in practice.

Officials say the lower target reflects a more pragmatic approach to economic management. Shen Danyang, director of the State Council Research Office and a key drafter of the report, described it as a goal that balances ambition with realism amid a more uncertain external environment. He noted that the range leaves room to adjust the economic structure, manage risks, and deepen reforms, while remaining consistent with China's long-term goal of raising per-capita GDP to developed-economy levels by 2035.

China's lower growth target signals a recognition that the economy needs structural adjustment, but the hedge built into the goal also reflects an internal policy debate, which raises the likelihood of policy shifts if growth weakens later in the year.

On the positive side: a lower headline GDP growth target creates space for authorities to tackle structural challenges such as high local government debt, weak household

consumption, and barriers within the domestic market that restrict trade and investment across regions. Progress on these issues will be critical to sustaining healthy medium-term growth. In the near term, the lower GDP growth target could also benefit businesses, because the lower target gives policymakers greater flexibility to address industrial overcapacity. Reducing excess supply could help stabilize prices, improve corporate profitability, and lift business sentiment.

On the hand, the government's decision to add the caveat of "striving for better results" complicates that signal. The wording suggests policymakers still want flexibility to pursue stronger growth if conditions allow, potentially making officials hesitant to fully prioritize structural reform when it conflicts with short-term economic performance.

China to keep a supportive macro stance in 2026

On 5 March, Premier Li Qiang's 2026 GWR said China will continue a "more proactive fiscal policy" and "moderately accommodative monetary policy," broadly maintaining the policy stance signaled at the December Central Economic Work Conference. Fiscal policy remains geared toward supporting growth while leaving room to adjust the economic structure, prevent risks, and advance reforms in the opening year of the 15th Five-Year Plan period. The headline settings are largely unchanged, with the deficit-to-GDP ratio set at around 4%, but the fiscal impulse is modestly stronger in absolute terms. The deficit will rise to RMB 5.89 trillion from RMB 5.66 trillion in 2025, while central budget investment will increase to RMB 755 billion from around RMB 735 billion last year. The GWR says that fiscal support will shift more clearly toward boosting consumption, investing in people, and protecting livelihoods, while also improving the efficiency of spending, and increasing central transfers to local governments.

Monetary policy will remain appropriately loose, with the GWR pledging to use tools such as reserve requirement ratio cuts and interest-rate cuts flexibly and efficiently. The main goals are to support stable economic growth, promote a reasonable recovery in prices, maintain ample liquidity, and keep growth in financing and money supply aligned with growth and inflation targets. The GWR also emphasizes better use of structural monetary tools to channel credit toward domestic demand, technological innovation, and small and micro enterprises, while lowering financing costs and keeping the renminbi basically stable.

China's 2026 macro framework points to continuity rather than a major stimulus shift, but the modest increase in fiscal spending and the stronger focus on consumption, innovation, and risk control suggest Beijing is trying to make more efficient use of existing tools.

Technology moves to the center of China's 2026 growth model

On 5 March, the 2026 GWR placed technology at the core of China's push for high-quality development, upgrading its role from an industrial modernization tool to a central pillar of economic restructuring and self-reliance. The GWR gives particular weight to building a "smart economy", with a broader and more systemic expansion of the "AI+" agenda, with AI integrated across industrial production and daily services, supported by open-source ecosystems, large-scale commercial application, computing infrastructure, and data systems. This stronger technology focus also extends to industrial policy, with support for emerging

pillar industries including semiconductors, aerospace, biomedicine, and the low-altitude economy, as well as future industries such as future energy, quantum technology, embodied intelligence, brain-computer interfaces, and 6G.

The GWR also marks an important shift in China's innovation strategy. Rather than focusing only on technological breakthroughs, it puts new emphasis on original innovation and full-chain advances in core technologies, backed by higher basic research spending, expanded national laboratories, major science missions, and stronger independent scientific infrastructure in frontier fields.

The 2026 GWR suggests China is no longer treating technology as a supporting policy area, but as the engine of its new growth model.

Building a stronger domestic market features heavily in China's 2026 policy agenda

On 5 March, the 2026 GWR positioned domestic demand as the top priority and long-term engine of economic growth, continuing a policy direction established last year. However, the emphasis has broadened. Rather than focusing solely on boosting consumption, the government now frames demand policy within the larger objective of "building a strong domestic market." The strategy combines expanding consumption with promoting investment, while leveraging the scale of China's ultra-large market to drive economic activity.

On the consumption side, the GWR outlines measures aimed at stimulating demand across a wider range of channels. Policies focus on strengthening household income growth, including raising property income, improving wage and social security systems, and increasing the incomes of lower-income groups. Investment remains the second pillar of the domestic demand strategy. The GWR stresses strengthening market-led effective investment, particularly in areas such as new productive forces, new urbanization, and human development. The government will allocate RMB 755 billion in central budget investment, RMB 800 billion in ultra-long special treasury bonds for major projects, and RMB 800 billion in new policy financial instruments to mobilize social capital.

A key structural initiative behind this strategy is the push to build a unified national market. The GWR highlights the development of new national regulations to support this goal and to standardize local government practices related to statistics, fiscal incentives, subsidies, and investment promotion.

China's emphasis on building a strong domestic market suggests Beijing sees internal demand and market integration as central to its next growth phase. The success of this strategy will depend on whether reforms can translate policy support into stronger household consumption and more efficient market competition.

China promotes two-way investment in the 2026 GWR

On 5 March, China's 2026 GWR reaffirmed that high-level opening-up remains a core policy priority, even as Beijing acknowledges rising geopolitical and trade uncertainties. The GWR stresses the need to "safeguard and develop an open world economy" by expanding

international cooperation and pursuing additional regional and bilateral trade and investment agreements. At the same time, it calls for broader institutional opening, particularly in the services sector, including expanded market access in areas such as value-added telecommunications, biotechnology, and wholly foreign-owned hospitals, alongside continued efforts to shorten the negative list for cross-border services trade.

A notable shift in this year's GWR is the formal introduction of "two-way investment" as a policy concept. In addition to welcoming foreign capital into China, the Chinese government now explicitly encourages Chinese companies to expand production and supply chains overseas.

The emphasis on "two-way investment" signals a shift toward a more integrated global strategy, in which China simultaneously seeks to attract foreign capital, encourage multinational localization, and support the international expansion of successful Chinese firms.

China increases defense and diplomatic spending amid rising geopolitical risks

On 5 March, China's 2026 GWR and accompanying budget documents outlined increased spending on both defense and diplomacy, reflecting Beijing's assessment that geopolitical risks are rising and that China must strengthen its security capabilities while expanding its global influence.

China plans to increase its defense budget by around 7% in 2026, bringing total military spending to RMB 1.91 trillion (USD 277 billion). The increase is slightly lower than last year's 7.2% rise but remains above the government's GDP growth target.

On the diplomatic front, the government proposed RMB 70.975 billion (USD 10.28 billion) for foreign affairs spending in 2026, representing a 9.3% increase, the largest rise in three years and the fifth consecutive annual increase. The budget is intended to support China's expanding international engagement, including greater financial and economic cooperation, and participation in global governance initiatives. The diplomatic budget will also support China's efforts to promote the development of the Belt and Road initiative. Officials say the increase reflects Beijing's view that global instability is growing and that China must play a more active role in addressing international challenges.

The parallel increases in defense and diplomatic spending highlight Beijing's dual strategy of strengthening military capabilities while expanding global influence through diplomatic engagement and participation in international governance.