Council on Geostrategy

Explainer
Geopolitics Programme
No. GPPE04
March 2024

China's National People's Congress and the economy: Short change

By George Magnus

The biggest surprise to emerge from last week's National People's Congress (NPC) in Beijing was the announcement before it opened that Li Qiang, the Chinese Premier presenting his first Government Work Report (GWR), would no longer be holding a press conference.[1] This three decades-old practice offered a rare opportunity for the Premier of the People's Republic of China's (PRC) to engage with the media openly, and away from the formulaic and often impenetrable language which features in the main economic reports published on the first day of the NPC. Whether the end of the premier's press event is a message from Xi Jinping, General Secretary of the Chinese Communist Party (CCP), about the status of the premier or the economy is a moot point. The optics are not good either way.

The economy has certainly been the focus of much negative attention for a while, and the uncharacteristic silence of leading policymakers about credible and comprehensive initiatives to address its major weaknesses has been notable.

[1] Charles Parton,'After the "Two Sessions": China in 2023 and beyond', Council on Geostrategy, 20/04/2023, https://www.geostrategy.org.uk/ (checked: 08/03/2024).

Leading stock market indices have risen by about 12% since the government started intervening in February to stop what had been a three-year-long decline, but current valuations remain a long way off their most recent 2020 highs. Since last October, 'China watchers' have been awaiting eagerly an announcement of the Third Plenum of the 20th CCP Congress, typically though not always a forum for setting out new economic plans and policies. Still unannounced, it is likely to take place after the summer, but hopes that the NPC might fill the void were quickly dashed.

There were no real surprises in what the government said, and no meaningful policy solutions to address the PRC's most troublesome systemic problems. Yet, it is still worthwhile reflecting on this important CCP event, and on what the government both said, and did not say.

Volatile background to the 2024 NPC

Much of what the government says formally to CCP delegates is cheerleading. Speeches and reports are self-congratulatory about a myriad of past accomplishments, and jubilant about an equally impressive list of all the things which will be accomplished in the coming year.[2] In reading the details, though, it is also important to exercise judgement over matters of historical record, along with current evidence.

The government says that the economy expanded by 5.2% in 2023.[3] The National Development and Reform Commission (NDRC), formerly the State Planning Commission, noted in its 2024 report to the NPC that the government had rolled out 20 policies and measures to revitalise and expand consumption, 17 to boost investment, and conducted appropriate monetary and credit policies.[4] Yet the state of the economy at the end of the year was not significantly better than it had been after the initial post-Covid-19 bounce.

Growth in gross domestic product (GDP) almost certainly fell well short of the government's estimate, and one well regarded group has suggested that the

[2] Key reports including the Government Work, Ministry of Finance Budget and National Development and Reform Commission reports are available at: 'NPC Observer', NPC Observer, No date, https://npcobserver.com/ (checked: 08/03/2024).
[3] Li Qiang, 'Report on the Word of the Government', NPC Observer, 05/03/2024, https://npcobserver.com/ (checked: 08/03/2024).
[4] 'Report on the Implementation of the 2023 Plan for National Economic and Social Development and on the 2024 Draft Plan for National Economic and Social Development', NPC Observer, 05/03/2024, https://npcobserver.com/ (checked: 08/03/2024).

economy may not have grown by more than 1.5%.[5] In any event, it is clear that the government's policy measures failed to fire up an economy which should have been ripe for a post-Covid-19 rebound, but instead faces an array of problems that predate the pandemic. These issues have been further exacerbated by the loop linking systemically weaker growth on the one hand and policies of repression and control on the other.

Xi has emphasised often that the PRC has to find the right balance between economic development and security, a point underlined by Li in his speech last week. These goals may actually be two sides of the same coin rather than alternatives, but Xi has certainly shuffled his emphasis to and fro, often leaning more towards security, control and restraint, but sometimes tilting the other way towards growth, as seems to be the case currently.

Indeed, only last year at the NPC, Xi emphasised external threats and surprise storms, and raised the spectre of 'Western nations, led by the US, implementing containment, encirclement and suppression against us'.[6] Indeed, as the economy continued to labour in the spring, the government opted to bolster security by toughening the Anti-Espionage Law, promulgating a new Foreign Relations Law enabling retaliation against sanctions, and authorising the Ministry for State Security to conduct a campaign which clamps down on predominantly American consulting and due diligence firms. More recently, the NPC Standing Committee revised the Law on Guarding State Secrets to further strengthen the security state by introducing 'work secrets' as a new category of restricted information which could affect firms that deal with and trade in the PRC.[7]

Yet the government still cares about the economy, especially when, as now, it seems to be faltering. Since the second half of 2023, more rhetorical support and some, if limited, practical assistance for the economy have been forthcoming. Monetary conditions have eased, liquidity and regulations for real estate developers have been loosened, local governments were encouraged to borrow more for infrastructure and social projects, housing and mortgage conditions were eased, and the central government itself took the unusual step of using its own balance sheet to borrow CN¥1 trillion (£110 billion) for project spending.

The warmer language aimed at private firms and entrepreneurs at this year's NPC is not unique – the government has been periodically turning on the

[5] Daniel H. Rosen, Logan Wright, Charlie Vest, and Rogan Quinn, 'Through the Looking Glass: China's 2023 GDP and the Year Ahead', Rhodium Group, 29/12/2023, https://rhg.com/ (checked: 08/03/2024).
[6] Kathrin Hille, 'China warns of potential conflict with US over containment strategy', *Financial Times*, 07/03/2023, https://www.ft.com/ (checked: 08/03/2024).
[7] Laurie Chen, 'China broadens law on state security to include "work secrets"', *Reuters*, 28/02/2023, https://www.reuters.com/ (checked: 08/03/2024).

charm ever since the 'Zero-Covid' policy was abandoned. It is not at all clear how effective the government has been in rebuilding trust relations, when 'Xi Jinping Thought' declares that 'the party leads everything', and that private firms are fine as long as they play a full role in the political and ideological directions in which the CCP leads.

That said, last summer, the government organised well publicised meetings to bring party officials and private sector executives together. The State Council published an 'Opinion on Promoting the Development and Growth of the Private Economy',[8] and in an attempt to woo foreign investors, published an 'Opinion to Further Improve the Investment Environment for Foreign Businesses'.[9] The NDRC also weighed in on the effort to boost private investment by setting up a bureau for the 'Development of the Private Economy'.[10]

Xi has also devoted a lot of attention to the prosperity he expects 'new productive forces' to deliver.[11] This refers to the expansion of the production frontier generated by cutting-edge scientific and technological breakthroughs – for example in 5G, satellite internet, semiconductors, robotics and artificial intelligence, new energy vehicles, materials and technologies, and chemicals and biomedicine – which now plays an important role in Xi's thinking.

New productive forces featured prominently at the NPC, as expected, and it is important to acknowledge how the CCP thinks about these things. The government is naturally upbeat about plans to bolster innovation, supply chain resilience and self-reliance in advanced manufacturing industrial clusters.

Xi may have conjured up the phrase 'new productive forces' relatively recently, but they are essentially the 'strategic emerging industries' that were the focus of the sea-change in industrial policy which evolved in the late 2000s and then especially from the mid-2010s when new government industrial guidance, or incubator, funds were set up. There are upwards of 1500-2000 such funds backed by US$1-2 trillion (£780 billion-£1.56 trillion) of capital.[12] These and other government-related sources of funds are unprecedented in scale, and play a significant role in the PRC's science and technology ecosystem, in trade policy, and in rendering industrial policy as a key tool to strengthen the CCP's command of the economy.

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[8] Zichen Wang, Jia Yuxuan, Zhuoning Li, Xiayi Du and Lixing Xie, 'New Top Document Promoting China's Private Economy', *Pekingology*, 19/07/2023, https://www.pekingnology.com/ (checked: 08/03/2024).
[9] Arendse Huld, 'China Issues 24 New Measures in Clear Directive to Boost Foreign Investment', *China Briefing*, 23/08/2023, https://www.china-briefing.com/ (checked: 08/03/2024).
[10] Zhang Hongpei,'China sets up a bureau for private economy', *Global Times*, 04/09/2023, https://www.globaltimes.cn/ (checked: 08/03/2024).
[11] '"New productive forces" a winning formula for China's future', *People's Daily Online*, 21/09/2023, http://en.people.cn/ (checked: 08/03/2024).
[12] 'China's Industrial Policy', Asia Society Policy Institute, 03/01/2023, https://asiasociety.org/ (checked: 08/03/2024).

It is easy to see new productive forces in a domestic context as part of the arsenal of motivational, organisational campaigns which are designed to drive the CCP's lofty ambition. They join a litany of others over the last 20 years that include indigenous innovation, 'Made in China 2025', supply side structural reform, dual circulation strategy, common prosperity, and high quality development.

Yet, it is equally easy to see the phrase as a red rag to other nations, particularly the United States and other liberal leaning democracies, especially in Europe. New productive forces are essentially the newest iteration of plans to boost the manufacturing production and export sectors of the economy. This aligns much more closely with the CCP's political interests than, say, market reforms to change the PRC's economic structure and institutions - but it also antagonises the country's principal industrial competitors who see unfair competition in global markets, and restricted market access in the PRC. Electric vehicles are a case in point; the European Union Commission instigated an unfair subsidy investigation in October 2023 into Chinese electric vehicle exports, and reported in March 2024 that customs registration would be required immediately, probably as a prelude to new higher tariffs when the inquiry concludes later this year.[13]

Major questions persist, naturally, about whether the PRC's science and technology capacities match its aspirations, and about whether its islands of technological excellence are even the right or relevant answer to systemic economic problems, including weak demand and imbalances, which run through the arteries of much larger swathes of the economy.

The NPC, growth and security

As the NPC opened, the PRC's economy was most likely growing modestly. Yet it featured persistent weakness in the real estate market, a parlous state of local governments' finances and provision of public goods and services, and the direct and indirect consequences of property and local government travails for financial stability, which is, after all, a national security goal.[14]

[13] 'EU set to allow possible retroactive tariffs for Chinese EVs', *Reuters*, 06/03/2024, https://www.reuters.com/ (checked: 08/03/2024).
[14] It is estimated that there are 20 million uncompleted properties which have been bought with mortgages by households, see: Rebecca Feng and Cao Li, 'China's Problem With Unfinished Homes Keeps Getting Bigger', *The Wall Street Journal*, 19/11/2023, https://www.wsj.com/ (checked: 08/03/2024). It is also estimated that the vacancy rate for already built homes is about 20% in China, see: Zhiru Tan, Donglan Wei and Zixu Yin, 'Perspectives from Nighttime Light Data', *Complexity*, 4:1-12 (2020).

Much of what was said echoed the last Politburo meeting that took place on 29th February 2024, chaired by Xi, which underscored the urgency of implementing a new high quality development model but with a definite shift in tone toward boosting economic vitality.[15] The Politburo meeting readout itself reproduced a lot of the language which appeared in the Central Economic Work Conference held in December 2023, but with some additional emphasis on expanding domestic demand.[16] This is a question of great significance because the PRC's fundamental economic shortcomings are weakness in aggregate demand in the formation of household incomes, and in consumption.

Notwithstanding the cheerleading, the GWR did at least acknowledge that the 'foundation for China's sustained economic recovery and growth is not solid, as evidenced by a lack of effective demand, overcapacity in some industries, low public expectations, and many lingering risks and hidden dangers'.[17] It is not that surprising then to note the soft bias towards growth at the NPC. Financial markets may be disappointed that there is no provision or desire for large scale stimulus, and the Ministry of Finance report is peppered with references to the need for fiscal sustainability and fiscal discipline.[18] Beijing remains reluctant to use its own balance sheet to help fund beleaguered local governments, which, in turn, are being pressured to get their fiscal houses in order. Last month, the State Council rejected applications from several cities to build new subway lines, and instructed 12 heavily indebted local governments to delay or halt some of their publicly funded infrastructure.[19]

Yet, on top of a highly ambitious GDP growth target, there are some limited demand measures and fiscal stimulus coming down the track.

GDP growth target

The GDP growth target has been set at 'around 5%', similar to last year. Yet, it will be much more challenging to hit that target in 2024 without the easy comparison of Covid-19 in 2022 that helped the 2023 outcome. Trend growth in the PRC nowadays is probably no higher than 3% or so, and getting to 5% in 2024 will be much harder without either committing to bigger fiscal spending and borrowing, or springing an almost impossible political surprise through the

[15] Han Wei,'Politburo Highlights Growth, Reform in Government Work Plan', *Caixin Global*, 1/03/2023, https://www.caixinglobal.com/ (checked: 08/03/2024).
[16] *Ibid.*
[17] Li Qiang, 'Report on the Word of the Government', NPC Observer, 05/03/2024, https://npcobserver.com/ (checked: 08/03/2024).
[18] 'Report on the Execution of the Central and Local Budgets for 2023 and on the Draft Central and Local Budgets for 2024', NPC Observer, 05/03/2024, https://npcobserver.com/ (checked: 08/03/2024).
[19] Sumeet Chatterjee and William Mallard, 'Exclusive: China orders indebted local governments to halt some infrastructure projects-sources', *Reuters*, 19/01/2023, https://www.reuters.com/ (checked: 08/03/2024).

implementation of significant consumer and market reforms. The alternative is to miss and manicure – in other words, fail to meet the target and then massage the numbers so the miss does not look too bad. This seems a likely outcome.

Proposals to help demand, at the margin, are expected from encouraging consumers to trade in old durables for new ones, an upgrade of elderly and child care services, and a roll out of a so-called 'worry-free' consumption initiative. Although it is not clear to what exactly this last measure refers.

Job creation

The government is also giving top priority, yet again, to job creation, and for good reason. It wants to create more than 12 million jobs in urban areas, a target that is invariably met but makes no allowance for the type of job or jobs that have also been lost. The main issue in the PRC's labour markets is the steady shift in occupational composition towards lower-paid and lower-skill work, and to informal or gig-type positions, at a time when the economy needs to churn out better educated and skilled workers and job opportunities. It is notable, therefore, that the Work and NDRC reports both refer to the need to develop a better educated talent pool as the PRC tries to shape a higher-quality workforce to match its lofty technology aspirations.

Real estate

There are several references to real estate, and also one that is absent. There is no room for Xi's 'houses are for living in, not for speculation' – a mantra that has lasted since 2016. Instead, with a strong focus on bringing uncompleted but paid-for housing units to their owners, the government is going to continue to ease financial pressures on real estate developers, and will most likely continue to change the ownership and financing structures in the sector as state-owned and state-funded developers take stakes in or buy out private developers, reversing the pattern of ownership that has existed since the housing market was formed in the 1990s and 2000s. Banks will also be encouraged to continue their involvement in financing the delivery of designated housing projects.

Fiscal stimulus (barely)

There is stimulus built into the government's fiscal plans, even though the budget documents say the opposite. The government's definition of the budget deficit is predicted to be 3% of GDP, considerably lower than the outcome in 2023 of 3.8% of GDP. Since some of last year's additional stimulus is being carried over to 2024, and this definition excludes a raft of other government funds and budgets and special bond issues, the bigger picture is different. For a start, the International Monetary Fund, for example, estimates the so-called augmented fiscal deficit, including all agencies of the public sector together with local governments, local government financing vehicles, state enterprises and off-budget funds, to be more like 13.5% of GDP.[20] It is most likely that some moderate fiscal loosening will take place in 2024, reflecting the additional planned issuance of bonds, an optimistic GDP growth target, and an unrealistic prediction in the Ministry of Finance Budget report of a 7.3% increase in the money value, or inflation adjusted value, of GDP, compared with 4.6% in 2023, as reported by the National Bureau of Statistics.[21]

This means either the economy will be on fire, or inflation will rise significantly, neither of which seem plausible. Limited stimulus is the main reason that the economy's cyclical rebound in 2024 may have some way to go yet, but also why it is likely to be short-lived.

Conclusion

The government certainly seems to want to lift spirits with its economic outlook and assessment. There is an optimistic GDP growth target, a moderate fiscal expansion, some initiatives to encourage demand, and the promise of more action to stabilise the housing market. The government has said it will improve policies (unspecified) to boost birth rates, and pay a bit more to pensioners, but without a nod to the long-standing need to lift the pension eligibility age. There is a gentle change in rhetoric to try and reassure private firms locally, and foreign firms, and an undoubted commitment to spend more money on science and technology as well as defence, and to exploit new productive forces.

Yet, there is not much here that is new, and next to nothing that will really guide the economy though the 'lingering risks and hidden dangers' referred to by Premier Li. Leaving aside those uncertainties emanating from the PRC's fraught international relations, these risks and dangers reside most urgently in the on-going shrinkage in the real estate sector, now in its third year, the acute financial pressures experienced by many local and provincial governments, and the consequences of both of these phenomena for the banking system and

[20] 'People's Republic of China: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China', International Monetary Fund, 02/02/2024, https://www.imf.org/ (checked: 08/03/2024).
[21] 'China's population is shrinking and its economy is losing ground', *The Economist*, 17/01/2024, https://www.economist.com/ (checked: 08/03/2024).

financial stability more broadly. The government certainly recognises the problems, but there were no new or comprehensive proposals to address them, save for a few tweaks to existing policies.

The PRC's government also has no platform or agenda to address the critical shortcomings in income formation and consumption structure, income redistribution and inequality, or its regressive tax system. No government officials are willing to talk about the risk of deflation in the PRC, which derives from weak demand. Ultimately, the government is hostage to its own contradiction: it professes to support markets and the activities of private firms, but often rejects, or offsets, market outcomes and even punishes market behaviour in favour of state control and state-lead policies, which it regards as essential to the CCP's political goals, and to the country's resilience and self-reliance.

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ISBN: 978-1-914441-62-2

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