

PLMR China Briefing Political Economy: Two Sessions 2021

TWO SESSIONS: Held each year since 1985, the Two Sessions is a parliamentary gathering of the National People's Congress (NPC) and the Chinese People's Political Consultative Congress (CPPCC). During the Two Sessions, China's leaders set out the country's economic priorities and policies for the year ahead.

Foreward

The past months in the UK have seen very high levels of media and reporting around the issue of UK Chinese relations, human rights and Hong Kong. These debates and discussions will not go away. UK Parliamentarians have declared that State genocide is taking place in China. In a motion not voted against by the British Government and a result therefore passed in the House of Commons, action against China was not compelled but China was heavily lambasted in a debate that led to increased public discussion in the UK of what is happening to the Uyghur minority in China. As the BBC reported, in a retort the Chinese embassy said that: "The unwarranted accusation by a handful of British MPs that there is 'genocide' in Xinjiang is the most preposterous lie of the century, an outrageous insult and affront to the Chinese people, and a gross breach of international law and the basic norms governing international relations. China strongly opposes the UK's blatant interference in China's internal affairs."

As the BBC again reported, the British Government opposed the motion arguing that deeming an event to be a genocide was a matter for "competent national and international courts after consideration of all the available evidence". There are concerns in Britain, alongside parallel realisations of China's particular history and development, status as a global superpower, and as a valued economic partner to the UK under recent Conservative and Labour Governments alike.

So the diplomatic atmosphere is somewhat torrid. The Boris Johnson Administration is measurably and visibly less pro China than the days of David Cameron and George Osborne and Foreign Office Minister Nigel Adams insisted that the UK was "ramping up pressure" on Beijing through the United Nations.

It remains the case that China and Chinese investment plays a significant role in the UK economy. As we are often reminded, for example in the [Guardian newspaper](#), over the past ten years or so "Chinese investment worth more than £50bn has flowed into Britain's economy. From the telecoms networks to London's famous black cabs, football clubs and Pizza Express, the Chinese yuan can be felt throughout Britain's economy and its national infrastructure.

It's a reality of life today in the UK. Global capital plays a significant role in the British economy and is something we have seen increase as a factor since PLMR's inception in 2006. PLMR is a Member of the China Britain Business Council and its recent report published [here](#) in collaboration with Cambridge Econometrics reminded us of some important pre Covid-19 statistics. Namely:

- UK ties with China generate some 129,000 full time equivalent (FTE) jobs; and
- Expenditure by Chinese students has become significantly important to UK Universities. Indeed on a recent visit back to my old University the University of Southampton I was briefed on how important Chinese student funding had become to its MBA courses where many students were from overseas

It is in this overall context that the first quarter of 2021 saw important gatherings take place in China, gatherings which when examined more closely provide us with detailed insight into the economic and social direction of the country as presented to domestic Chinese audiences, where the control of the Communist Government shows no sign of weakening.

PLMR's Report on these recent meetings highlights a number of items to come out of China in the first quarter of this year at the Parliamentary Gathering called the Two Sessions.

1. Annual GDP target is 6%.
2. China was the only major economy to achieve GDP growth in 2020 as it rebounded from the economic shock of the pandemic in H1 2020 with a 2.3% increase for the year
3. Sights are set by the Chinese on achieving a growing middle class - one which will double by 2030 to include 800 million people.
4. Aging population and a drop in the national fertility¹ are of increasing concern to China's leadership.
5. At least 11 million new jobs will be created in 2021, up from 11.9 million in 2020.

We hope you find this latest report, drawn up by PLMR Team Members expert in all things Chinese, helpful. For more details of what we do please see our website [here](#).

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1 1.7 children / woman in 2020, on par with the fertility rates of developed nations

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Two Sessions: March 2021

The annual National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC), together known as the Two Sessions, took place in the first week of March 2021. The most important political event in the calendar each year, the Two Sessions held particular significance this year, which marks the 100th anniversary of the Communist Party of China (CPC), as the country's next Five Year Plan (FYP), the 14th Five Year Plan (2021 – 2025), was up for approval along with longer term goals to 2035.

For only the second time, the scheduling of the two Sessions underwent a change this year. It lasted just six and a half days rather than the usual ten. Last year, epidemic prevention and control measures pushed officials to increase efficiency by reducing staff, simplifying documents and using a combination of on and offline events. The success of the streamlined process coupled with the ongoing efforts to keep COVID-19 at bay encouraged officials to pursue a similar course this year.

Just as they did in 2020, China's leadership acknowledged that the country faces domestic challenges and pointed to the complex and challenging external environment, exacerbated by increasing tensions in the relationship with the US. Still, a tone of cautious optimism enveloped the Two Sessions, marked by a sense of confidence and pride in China's approach to combatting the COVID-19 pandemic and a prudent but positive outlook for the trajectory of China's economic recovery.

Beijing's top priorities include maintaining sustainable economic momentum and achieving domestic resilience. Over the past year, policy has been shifting to reflect these goals and this is set to continue through 2021 and beyond. There's a heavy push on developing innovative technological capabilities, modernising industry, and improving supply chains to accelerate the drive towards self-reliance in the science and technology fields. Employment is critical, both to fuel the economy, and to sustain social stability and unity. As such job creation is at the top of the agenda with a goal of more than 11 million new urban jobs in 2021.



Background

TWO SESSIONS: Held each year since 1985, the Two Sessions is a parliamentary gathering of the National People's Congress (NPC) and the Chinese People's Political Consultative Congress (CPPCC). During the Two Sessions, China's leaders set out the country's economic priorities and policies for the year ahead.

NATIONAL PEOPLE'S CONGRESS: The NPC is China's highest legislative body, responsible for enacting legislation, implementing the State Constitution, appointing key State positions, and approving the country's broad policy direction. It meets in full once a year in March and is represented by its permanent body, the NPC standing committee when not in session. Each NPC serves a five-year term. The NPC gathering from 5 March – 11 March 2021 marked the fourth session of the 13th NPC.

CHINESE PEOPLE'S POLITICAL CONSULTATIVE CONFERENCE: The CPPCC is a political advisory body of representatives from a variety of sectors including business executives, academics, and other high-profile individuals. Each of China's 56 ethnic groups are represented. Party members comprise around 40% of the CPPCC, China's eight Democratic Parties are each represented as well. The CPPCC National Committee meets once a year in March at the same time as the NPC. Like the NPC, each CPPCC serves a five-year term. The CPPCC gathering from 4 March – 10 March 2021 marked the fourth session of the 13th CPPCC.

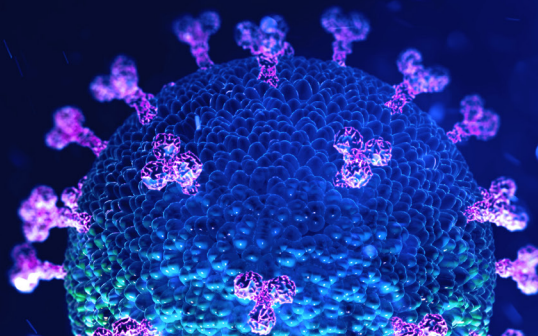
Growth target

In the run up to the 2021 Two Sessions speculation regarding the GDP growth target was rife after it had been dropped entirely in the preceding year in an unprecedented move driven by the uncertainties COVID-19 brought to the global economic and trade environment. Some international analysts were predicting a target of 8% while experts in China predicted that the target may not see a return this year at all.

Policy makers were divided between the view that no target or a low target would better manage expectations and the view that an ambitious target would set a motivational goal and simultaneously serve as a display of confidence. The former won out, and Premier Li Keqiang announced a GDP target for 2021 of over 6%. This figure accounts for the uncertainties that remain in global economic recovery as well as the micro, small and medium sized businesses that are still working towards their own financial recoveries. Despite international commentators dismissing the target as low, Beijing is looking for steady, long term gains rather than fast but unstable growth.

Li declared that the target should be absolutely aligned with what China can accomplish during the year and in the year that follows after in order to avoid dramatic swings in performance, expectations, and ambitions. In the past the GDP growth target has been considered the key and critical measure of China's economic development and achievements, this year weight will be more evenly spread with other metrics such as employment.





COVID-19 recovery and macro policies

China was the only major economy to achieve GDP growth in 2020 as it rebounded from the economic shock of the pandemic in H1 2020 with a 2.3% increase for the year. Beijing's economic policy makers took a considered and relatively restrained approach to stimulus. Measures included a spate of tax and fee cuts for companies, loan deferrals for individuals, extra bank lending, RMB 3.75 trillion worth of special purpose government bonds, and a RMB 1 trillion COVID-19 bond.

In 2021 and beyond, the government plans to continue to take a pragmatic and measured approach, offering the necessary support measures to ensure that economic stability is maintained with neither a stimulus cliff-edge nor a flood. Government expenditure will rise by 1.8% to over RMB 25 trillion. Monetary policy will remain prudent, flexible, and targeted. Tax and fee cuts and incentives will be extended as will loan deferrals for companies however, with sights set on sustainable and high quality growth, some stimulus measures will be scaled back. Beijing is aiming for a reduced deficit to GDP ratio of 3.2%.

While the 2021 GDP growth target has been set at over 6%, the 14th FYP does not include a growth target through to 2025. It states that growth within a reasonable range will be pursued and that targets will be set annually in order to be more reactive to the economic environment and events.

14th FYP and economic priorities

China's FYPs set out the country's economic and development priorities and policy direction every five years. The 140 page document includes key goals and targets for the next five years.

STRATEGY: The focus on the Dual Circulation strategy remains. Key tenets include boosting domestic consumption, advancing in the areas of science and technology, and moving up the global value chain. Beijing is prioritising pursuing quality growth over fast paced or high volume growth through reducing debt levels, a lesser focus on fixed-asset investment driven growth, increased efforts to boost household income levels, and the expansion of domestic demand. Reform and opening of the land, labour and capital markets will continue.

MIDDLE CLASS EXPANSION: Sights are set on a growing middle class to double by 2030 to include 800 million people. Measures to achieve this goal will be focused on new graduates, skilled workers, and migrant workers.

JOB CREATION: At least 11 million new jobs will be created in 2021, up from 11.9 million in 2020. Beijing has set an urban unemployment level of under 5.5% for the next five years. Support for micro, small and medium-sized enterprises will continue. RMB 55.9 billion has been earmarked for employment subsidies in 2021.

RURAL REVITALISATION AND NEW URBANISATION: Tapping into new growth engines underpins China's short and mid-term development goals. Plans look to unlocking the economic potential of China's rural areas through modernisation of the agricultural sector, upgrading of rural facilities and services, improved connectivity with urban areas, and enhanced rural-urban supply chain logistics. A new National Rural Revitalisation Bureau was established in early 2021 to head up this initiative. Simultaneously, a target urbanisation rate of 65% has been set for 2025². In order to achieve this, the National New Urbanisation Plan (2021 – 2035) and reforms to the household registration system³ are set to be launched.

² Up from 60% in early 2021

³ The Hukou system

This will allow residency and access to education and healthcare services to migrants moving to small cities of under 5 million residents. These plans will spur rural-urban integration to benefit the broader domestic economy. Development plans continue to centre around mega-cities and city-clusters.

SCIENCE, TECHNOLOGY, AND DIGITAL INNOVATION:

A target of 7% research and development (R&D) growth has been set per annum to 2025. There is a goal to increase the number of high value patents to 12 per 10,000 people in 2025⁴. Increased support will be given to fields including AI, quantum information, aerospace, biotech, genetics, and deep-sea exploration. National science and technology projects will be established in these frontier areas. Tax cuts and incentives will be offered to companies in order to offset the costs of R&D. The upgrading and transformation of domestic industry will continue through increased investment in new digital infrastructure including 5G, industrial internet and blockchain with a view to smart, automated and networked manufacturing. The added value of the digital economy core industry as a proportion of GDP will increase to 10% in 2025, up from 7.8% in 2020.

DEMOGRAPHICS: Aging population and a drop in the national fertility⁵ are of increasing concern to China's leadership. The goal of encouraging a higher birth rate is a key factor in the urbanisation and migration framework. Meanwhile, the national retirement age is likely to rise as will demand for elderly care and healthcare services.

CLIMATE AND CONSERVATION: China's anti-pollution drive is set to strengthen over the coming years with significant investment in tackling air, water and soil pollution. Beijing is serious about its goals to cut energy intensity by 13.5%, reduce carbon emissions by 18%, and increase the proportion of non-fossil fuels in the country's energy mix by 2025⁶ with a focus on new energy sources.

REFORM AND OPENING UP: Enhancing market fairness and competition and effectively regulating the business environment continues to be a priority. These trends have been in motion over the last year, and in 2021 authorities plan to strengthen regulation of financial holding companies and financial technology companies. Attracting foreign investment is high up on the government's priority list. Beijing is committed to accelerating the opening up of more sectors of the economy to foreign investment and participation in order to bring capital and expertise into China as well as to stabilise the balance of trade. The Negative list will undergo a revision that will allow more access in sectors including internet and telecoms, education, healthcare, manufacturing and in the financial and services sectors.



⁴ Up from 6.3 per person in 2020

⁵ 1.7 children / woman in 2020, on par with the fertility rates of developed nations

⁶ Non-fossils fuels to account for 20% of the total energy mix by 2025, up from 15.3% in 2019

Long term targets

In a break from precedent, the 14th FYP document also includes the government's longer-term vision, 'Long-Range Objectives to 2035'. The overarching goal is to realize socialist modernisation. This will be achieved through a series of activities and pragmatic targets including:

- Increasing per capita GDP to a range level with moderately developed countries
- Expanding the size of the middle-income group
- Reducing disparities in urban-rural development and living standards and improving quality of life
- Modernising the governance system
- Making major breakthroughs in core and strategic technologies and becoming a leader in innovation
- Achieving new industrialisation, IT application, and agricultural modernisation to become a modernised economy
- Realising the 'Beautiful China' goal and a decline in carbon emissions through employing environmentally friendly ways of working and living
- Strengthening in areas including culture, education, talent, sports, and health
- Enhancing China's cultural soft power
- Reaching a new stage of opening up through improved strengths in and participation in international economic cooperation and competition