PISM POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

NO. 132 (1562), 22 JUNE 2020 © PISM

BULLETIN

First is the Economy: The Importance of This Year's Session of the Chinese Parliament

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The session of the National People's Congress (NPC) that ended on 28 May focused on improving the economic situation in China. Prime Minister Li Keqiang pointed out the stabilisation of the job market and raising the standard of living of Chinese as the most important goals. NPC decisions regarding Hong Kong and accusations that the U.S. is using the pandemic as a political tool confirm that the PRC sees the problems in the United States and the ongoing presidential campaign there as an opportunity to strengthen China's international position and divert attention away from its difficult economic situation. The European Union will not, however, tighten its policy towards China because it wants to cooperate with it in solving global problems. The EU will still pursue assertive policy as part of the defence of the EU market and international law.

The NPC acts like China's parliament. It deliberates in sessions and approves the decisions of the Communist Party (CPC) authorities. This year, due to the pandemic, the session was moved from March to 22-28 May and shortened from two weeks to one. The NPC also met in special circumstances for China—after the publication of historically bad economic results from the first quarter of this year. This was also accompanied by U.S. that China failed to stop the coronavirus outbreak and investigations by, among others, the EU and Australia within the World Health Organisation of China's response after detecting the first COVID-19 cases. The NPC's decisions in this shortened term mainly concerned support of the economy and the tightening of control over Hong Kong.

Economic Decisions. At the opening of the NPC, Prime Minister Li Keqiang traditionally presents a report on the work of the government. This time, and for the first time since 1990, he did not set a target for China's economic growth in 2020. As the reason he gave the uncertainty in the world due to the pandemic. At the same time, he pointed out that the main economic goals of the government are to stabilise the job market and improve the standard of living of citizens.

To achieve these goals, the authorities declared, among others, increased expenditures on maintaining employment to stimulate consumption. Public investments also will be financed, including urbanisation projects and "new" infrastructure, such as the 5G network. The government will issue special bonds worth $140 billion, which will not be included in the official public debt, and will increase province debt capacity by $220 billion. In total, the value of the stimulus package will amount to $500 billion, or about 4% of GDP, and will be comparable with the support of the economy during the financial crisis of 2007-2009. This time, however, more emphasis will be placed on fiscal support than lending. Among various factors, this may be because of the high level of existing debt in the Chinese economy (government, companies, households), which is amounts to more than 300% of GDP. Higher spending increases the deficit, which the government predicts will amount to 3.6% of GDP, or 0.8 percentage points more than a year earlier and the most since the mid-1990s. The prime minister also announced the continuation of market reforms, including strengthening the intellectual property protection system and opening up further industries to foreign investment, including in the services sector. These measures are intended to increase the competitiveness of the Chinese economy in the long run.

Security Policy and Home Affairs. On the day the NPC session began, the authorities announced that the official defence budget in 2020 would rise to 1.27 trillion yuan, or $178.6 billion (in 2019, it was $177.5 billion at a lower dollar-to-yuan exchange rate). This represents over 5% of the total budget of the PRC and 1.3% of its

GDP. The increase in military expenditures (in yuan by more than 6%) is the lowest in several years, but much higher than the GDP growth forecast this year (according to the World Bank, GDP will rise by 1%). This confirms that defence and GDP remain independent despite the economic problems and that completing the modernisation of the armed forces by 2035 remains a priority for the Chinese authorities. The official figures, moreover, include only part of China's defence spending—the Stockholm International Peace Research Institute estimates that in 2019 they could exceed $260 billion in total.

The NPC also decided that work should start on implementing a security law in Hong Kong that may enter into force even in June still this year. Fragments of the law disclosed on 20 June assume, among others, criminalisation of activities considered subversive towards China and aimed at the secession of Hong Kong, also from abroad. Judges in these cases (normally organised by a schedule) will be appointed by the Chief Executive of Hong Kong, who is dependent on China. The law will also allow the Chinese security authorities to operate in the region on selected cases without the permission of the Hong Kong authorities, which will de facto mean organic control or the abolishment of the region's autonomy. According to the Sino-British Declaration of 1984, autonomy should apply to at least until 2047. The obligation to regulate security issues by the Hong Kong Parliament is set out in the Basic Law of 1997. However, the Chinese authorities want to apply a different solution and place new regulations in the so-called Annex III of the Basic Law, which will automatically enter them into the Hong Kong legal system.

Foreign Policy. During the session, relations with the U.S. were a key topic of foreign policy. The NPC's decisions regarding Hong Kong and the accusations by Prime Minister Li and Foreign Minister Wang Yi that the U.S. is politicizing the fight against the coronavirus have worsened Chinese-American relations. The dispute was further deepened by China's rhetoric towards Taiwan. The prime minister reiterated his will that China unite with the island, but did not use—unlike in previous years—the adjective "peaceful". The day after the end of the session, at a party leadership meeting on Taiwan, NPC Chairman Li Zhanshu stressed that the "force option" is a possibility, but as a last resort.

During the NPC session, Minister Wang expressed his will that negotiations on the investment agreement with the EU and opening the Chinese market continue. At the same time, his statements showed that the confrontational attitude of Chinese diplomats in the EU was within the standards of defending the interests of China. The delegates emphasized medical cooperation with other countries as part of the new "Health" Belt and Road Initiative. At its heart is the promotion of crisis-management mechanisms for use in preventing an epidemic, including the use of citizen surveillance technology.

Conclusions and Perspectives. China is ready to strongly support its crisis-hit economy, although it will be smaller than the stimulus packages introduced, for example, by the U.S. or Japan. At the same time, it wants to reduce the impact of such spending on official public finances (as evidenced by the issuance of special bonds) in order to maintain China's high credit rating. In turn, the lack of an economic growth target for this year will allow the government greater freedom of action. Economic recovery in China would have a positive impact on the reconstruction of the global economy, but it will be difficult to achieve, not least because of uncertainty among Chinese consumers. The announcements by the Chinese government will become part of a new five-year plan (2021–2025), which will be presented in March 2021. It will largely focus on increasing consumption as a remedy for the instability of global demand.

China sees an opportunity with the U.S. distracted by internal problems and the presidential election campaign to strengthen its international position, as evidenced by the continuation of the work on the Hong Kong Security Act. This work may also serve to divert attention from the bad economic situation in China. As a result, China will not fulfil the conditions of the so-called "phase-one trade agreement" with the U.S., counting on a weak response as the American economy has been severely hit by the pandemic. China will also respond to possible U.S. sanctions resulting from the Hong Kong decision, which could affect, for example, American companies operating in Hong Kong and China.

The more confrontational Chinese policy towards the U.S. will not significantly affect further tightening of the EU position as expressed in the document "EU-China: Strategic Outlook" from 2019. The Union will focus on pragmatic cooperation with China, such as on climate issues. At the same time, it will declare cooperation with the U.S., among others, in defence of international law and civil liberties through, for example, the new EU-U.S. dialogue on China proposed by EU High Representative for Foreign Affairs and Security Policy Josep Borell. However, this will not mean, for example, common sanctions against Chinese officials involved in the work on the Hong Kong Act. The EU may also cooperate with the U.S. on the development of investment-screening mechanisms or relocating strategic goods from China, which requires, for example, establishing a common catalogue of strategic sectors. To prevent this, China will emphasize its readiness to make economic concessions to the EU. Market reform announcements may be an incentive for European companies to maintain production in China. However, because of the weakening of local enterprises, a wide opening of the Chinese market is unlikely.

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