



China's Two Sessions: Major Observations

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China's two sessions, the annual meetings of the National People's Congress (NPC) and the meeting of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) took place earlier in the month of March 2017. These meetings are important since they debate some of the significant policy priorities for the country for the next year. The background to this year's meeting being, first the upcoming party congress, second, the economic slowdown in China and the new normal of about 6 percent of growth and the third being the issue of stability vis-à-vis the rapidly changing external environment and its impact on China's domestic policy scenarios. Rallying behind the central leadership, economic stability and growth and need to comprehensively reform governance, finance and economy for better performance and delivery are the core areas that emerged out of the work report presented by Premier Li Keqiang at this year's NPC. In the following sections, some of the outcomes pertaining to the areas listed about will be discussed in more detail.

- **Reiteration of Xi as Core leader and Xi's Significant Meetings:**

At least on three occasions, there is a mention of President Xi Jinping as the core leader of the party and the need to rally around the core leadership collectively, especially in the year of the party congress. Of the 17 major tasks for the government listed for 2017, "following the leadership of the Party Central Committee with Comrade Xi Jinping at its core", is the first one. It is important to note that Xi Jinping heads a total of twelve influential governance bodies in China today and these positions give him extensive power.

Xi Jinping had various meetings with participant delegates from different provinces and organisations. Speaking at the meeting with the NPC delegates from Shanghai, Xi said that "China's opening door will not close again", and appealed to them to lead on reform and innovation and set an example for the rest of the country.¹ He added that innovation was the key to success in the days of new normal in economic development and crucial to supply side reforms. This appeal came shortly after a similar statement in a meeting in the month of February when Xi

urged provincial officials to "choose the heaviest burden and crack the hardest nuts" when pursuing economic and social development.²

In his meeting with deputies from the PLA, Xi called for deepening of civil-military relations and highlighted high-tech innovation as key to military up gradation. He also reiterated the importance of the new central commission for integrated civilian and military development as being useful for centralized and unified leadership.³

He attended a meeting with ethnic minority deputies during the NPC wherein he appealed to the deputies to make a solid effort for ethnic unity and lead the people in pursuing a well-off life.⁴ In a meeting with the representatives from Xinjiang, he called for a "great wall of iron" to safeguard national unity, ethnic solidarity and social stability in the region. He added, "...maintaining stability in Xinjiang was a political responsibility, and that stability-related issues must be handled in a thorough, timely and proper manner". He also called for reinforcing solidarity between the military and government, soldiers and civilians, police and the people, and the production and construction corps and local communities".⁵

In addition, President Xi Jinping had a meeting with the delegates from Sichuan province. Advancing development and comprehensive elimination of poverty were the focal points of this meeting. He said in this meeting that China needed a poverty relief mechanism with long-lasting effects and needed to contain formalism in poverty reduction. He reminded the delegates of the 2020 target of delisting all counties from the poor list and to bring rural poverty under control in a comprehensive manner.⁶ In his meeting with delegates from Liaoning province, Xi stressed on SOE reforms and real economy of production as being crucial of development of north-eastern China.⁷ Xi added that supply-side structural reform were inevitable for the revitalization of Liaoning and urged the provincial leaders to make progress in the reform and to rejuvenate the industrial sector.⁸

In summary, President Xi's delegation meetings and his messages therein underscore that the core priorities of reforms, unity, progress and centrality of the party in governance to China need to be adhered to by all elements of the society. Without their implementation, various targets leading to the two centennial goals of becoming a moderately prosperous society by 2021 and an advanced socialist market economy by 2049 may not be achieved. The first goal of these two is less than five years away.

- **CPPCC Forum Summary:**

Yu Zhengsheng, chairman of the CPPCC delivered a report on the work of the CPPCC National Standing Committee at the fifth session of the 12th CPPCC. This session was attended by 2000 CPPCC members representing 12 political parties and prominent organisations. Two thirds of the CPPCC members come from the Communist Party of China (CPC). The central tenet of Yu's work report was for the political advisors to "stick to the leadership of the CPC more consciously, and unite more closely around the CPC Central Committee with Xi Jinping as the core" to implement decisions and policies made by the CPC Central Committee".⁹ He added that implementation of

the tasks and targets of the 13th Five Year Plan was an important objective and that the CPPCC should work to “help the nation adapt to and guide itself through the economic “new normal” towards achieving steady and healthy development”.¹⁰

President Xi Jinping participated in the CPPCC roundtable with other political parties in China like the Chinese Peasants and Workers Democratic Party, the China Association for Promoting Democracy, and the Jiu San Society. During this roundtable, he called on intellectuals and elites to contribute towards national rejuvenation, prosperity and people’s well being and to work hard towards making China a moderately prosperous society”.¹¹

- **Legislative Reforms**

The work report of the NPC Standing Committee highlighted various changes in the legislative framework. It said, air pollution control laws were amended and expanded to include newer provisions. These aimed at improvement of intra-regional and intra-sector cooperation. The Food Safety Law, a cause of concern, has been amended according to the report. China’s Criminal Law was amended to bring it in sync with the National Security Law and Anti-Terrorism Laws of 2015. A few reforms on the local party congresses have been initiated. The document also lists a general reiteration of establishing centrality of the constitution in the legislative process in China.¹²

One of the significant laws has been the publication of the interpretation of Article 104 of the Basic Law of the Hong Kong Special Administrative Region. This interpretation reinforces the centrality of Beijing over the interpretation of “one country-two systems” model of governance.¹³ It says, “to swear to uphold the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China and swear allegiance to the Hong Kong Special Administrative Region of the People's Republic of China” is not only the exact phrasing that must be included in the oath prescribed by Article 104, but is also a legal requirement and condition for any person standing for election or taking up any position of public office specified in the Article.”¹⁴ Beijing and a large section of the Hong Kong civil society have been at loggerheads since the middle of 2013 on the issue of the Chief Executive elections. While the Hong Kong civil society’s outburst, the Umbrella Movement, was successfully ended through the resilience of the state, simmering tensions remain under the surface. Its significance comes in the wake of the 20th anniversary of Hong Kong rejoining mainland. This amendment gives Beijing more leverage over the nomination and election process of the Hong Kong Chief Executive. It also led to disqualification of two newly elected lawmakers who had raised pro-independence slogans during their oath taking. This interpretation was also endorsed by the CPPCC.¹⁵

- **Grim Domestic and External Environment:**

The Premier’s work report presented at the NPC presented a rather sombre note on China’s domestic economic scenario. It says, “(In 2016), Domestically, China faced multiple difficulties: major structural problems, prominent risks and dangers, and mounting downward pressure on the economy. China found itself in a complex environment as reform entered a critical stage, profound changes took place affecting interests, and factors impacting social stability grew”.¹⁶ He also contextualised China’s domestic challenges within the difficult global trends by stating,

“World economic growth remains sluggish, and both the de-globalisation trend and protectionism are growing. There are many uncertainties about the direction of the major economies' policies and their spill-over effects, and the factors that could cause instability and uncertainty are visibly increasing. China is at a crucial and challenging stage in its own development endeavours, and there are many salient challenges and problems in the economy”.¹⁷

There is also an admission in the Li work report that China is undergoing an inevitable phase of transformation and the phase is “urgent, formidable and complicated”. He cautioned that this transformation may be filled with promise but will also be accompanied by great pain.¹⁸ He follows by saying, “We should press forward with courage and get the job done”.¹⁹ This is particularly true in case of the various reforms, on which little has been achieved despite promises. These include reforms of the state-owned enterprises, debt to GDP ratio adjustments for provincial and local governments, local resistance to supply side reforms and adjustments, and letting greater market role in resource allocation and management.

- **Economic Challenges and Targets:**

On the economic front, Li Keqiang declared that China would have a growth rate of around 6.5 percent and will surpass it, if possible. In the previous year's Work report, the projected growth rate was between 6.5 and 7.0 percent and actual was 6.7 percent. The three themes that got repeat mention like last year are the need to reduce overcapacity, deleveraging the corporate sector, and restructuring the state-owned enterprises (SOEs). At the same time, the stated targets are more modest, given the general local reluctance to shutdown some of the units owing to employment pressures. Thus, “seeking progress, while maintaining stability” is the central message on economy. A total of five areas that will be paid urgent attention in 2017 have been identified. These include, reducing overcapacity, reducing housing inventories via targeted policies, deleveraging the corporate sector, tax and fees reduction to help small firms and manufacturers, and reduce overall weaknesses in areas like public service delivery, infrastructure, innovation-driven development, and environmental sustainability.

Li's work report focuses extensively on the need to usher in greater fiscal reforms. Financial accountability, transparency as well as health of commercial banks have been listed as major concerns and non-performing assets, bond defaulting, shadow banking and internet financing have been mentioned as potentially big risks for the economy. The report talks of “the need to build a firewall against financial risks”, which highlights the depth and spread of the problem, and the potential domino impacts of the financial meltdown.

The projected government deficit for 2017 will be 2.38 trillion Yuan which was 2.18 trillion Yuan in 2016, representing an increase of 200 billion Yuan over 2016. In other words, deficit-to-GDP ratio will be same at three percent and the reason given for this is to allow for further reduction in taxes and fees.²⁰

Rural development, poverty reduction & increasing rural incomes and upgradation of agriculture are other areas of focus. These are treated as areas in which deepening of reforms

needed to be prioritised. Rural infrastructure, building of or upgrading existing roads networks in rural China and deepening internet penetration are listed as other areas of works for 2017.

Promoting and incentivising innovation is another highlight of the work report. Reforms and innovation are the only two ways through which China can advance is the message and it is also a kind of message to the old economy of the state-owned enterprises (SOEs) in China. SOE reform has been the much touted phrase of the Li-Xi administration. However, little has changed in this area in the recent years. The work report lists innovation-driven development to bring next level of economic growth in China. Innovation would help China overcome the middle income trap in the longer run. That is why the focus is on start-ups, innovation and incubation facilitation.

- **Employment Creation and domestic consumption growth as the focus areas:**

Job creation remains one of the most important objectives for the government amidst admission of economic slowdown. To this end, the Xi-Li administration has promised a proactive policy towards job creation and the target for new jobs is of 11 million, 1 million more than the previous year. This may be achieved through other sets of targets listed in the work report, for example, the need to increase domestic consumption and the need to speed up the development of service consumption. The objectives listed towards this end include various reforms in service sector in areas like elderly care, healthcare, educational services, domestic tourism and holidays, paid-vacations and expansions of e-commerce in rural China.

In one of the sections on addressing weaknesses, focussing on rural development, the work report states that the domestic and overseas export of labour is one of the focus areas of government's work. This also underscores the urgency attached by China for the success of the Belts and Road Initiative (BRI) projects and the nature of labour markets in the BRI projects. External contracts and megaprojects have been important sources of addressing the domestic employment challenges for China and BRI projects would help address this in a similar fashion in the future as well.

- **Reducing Government Expenditure:**

One of the promises made in the work report is that the directive for governments to reduce their expenditure on official travel, vehicles and hospitality.²¹ This is in compliance with the Party Central Committee's eight-point decision on improving Party and government conduct and the need expressed by Xi to address formalism, bureaucratism, hedonism, and extravagance in the workings of the CCP. This policy directive is also in line with the four comprehensives outlined by president Xi, i.e. comprehensively build a moderately prosperous society; comprehensively deepen reform; comprehensively govern the nation according to law; and comprehensively strictly govern the Communist Party. These four principles are significant towards the achievement of the *China Dream* and thus their significance.

Similar concerns were expressed in the report on central and local budgets. Subsidies to zombie enterprises, local debts and its adjustments were significant concerns. The areas of

priorities to be addressed in 2017 included, “address overcapacity, reduce excessive inventory, deleverage, lower costs, and bolster areas of weakness”.²² It expressed happiness over the implementation of policies like ecological conservation, low-cost housing, education and social security in 2016 and assured tax and fiscal reforms aimed at improving ease of doing business.²³ Major funding support was announced for initiatives like innovation, transformation of traditional industries, and development of service sector and communication infrastructure. Similar priorities have been expressed in the national plan on socioeconomic development.

- **China and the World:**

China’s relations with the world is listed in various sections on challenges, like in case of economy, the de-globalisation tendency is listed and the section on maritime economy development states that China would resolutely safeguard its maritime rights and interests. The section on opening up to the world began by looking at BRI and talks of cooperation based on mutual strengths of the partner countries. At the same time, it talks of promoting the exports of Chinese equipment, technologies, standards and services.

Continuation and expansion of foreign trade is another listed priority. Similarly, the Made in China 2025 initiative and ease of investments and improved environment for foreign investors are other sets of priorities. Continuation of economic globalisation has been stressed once again in this section. It talks of the early conclusion of the talks on the Regional Comprehensive Economic Partnership (RCEP) and advancing the development of the Free Trade Area of the Asia-Pacific (FTAAP) as well as other relevant bilateral investment and trade agreements.

Wang Yi’s press conference of 8 March 2017 highlighted some of these issues. In this press conference, he said that the BRI project belongs to the world and would help in rebalancing economic globalisation. On the US-China relations he expressed optimism and said that bilateral relations were steady. He added that President Trump’s reaffirmation of one-China principle was a new starting point and there was a general consensus on how to take it forward. He added that there was a need to rise above the differences, especially in the age of progress and plurality and work together for common objectives.²⁴ He also recounted China’s major diplomatic policies and achievements since the 18th Party congress and reiterated Xi Jinping’s status as the core leader. On the issue of the security situation in the Korean peninsula, he proposed the two step formula, that of DPRK suspending its missile and nuclear activities in exchange for halt of large-scale US-ROK exercises.²⁵

- **Conclusion:**

Achieving balanced and inclusive economic growth has been the objective of the successive governments in Beijing. Repeatedly, work reports and leaders’ speeches have warned of the growing inequality within China and of the looming economic challenges. The Xi-Li administration began its regime in 2012-13 with big promise of reforms and economic sustainability. However, reading this year’s work report suggests that incrementalism still rules the process of economic reforms in China and the big bang reforms expected from Xi-Li administration are nowhere to be seen. Economic challenges remain, and the work report is about

how to overcome those challenges. It is also a kind of appeal to the various stakeholders to rally around the central leadership and to absorb short-term pain for long term prosperity. Beijing is pushing for macroeconomic reforms and the reforms of various SOEs. Similarly restructuring the domestic debt remains one of the most significant economic challenges facing China. How these issues are addressed remains to be seen.

Externally, there is some optimism over the BRI initiative. However, the doubts over its feasibility remain. China's foreign policy projects the BRI as the panacea to the development challenges in its neighbourhood. China's working relationship with the Trump administration looks to be getting better even if there are disagreements on various issues like how to resolve tensions in the Korean peninsula.

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End Notes

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¹⁴ Ibid.

¹⁵ Tony Cheung, Zhou Xin and Emily Tsang, "CPPCC praises "positive" decision to interpret Hong Kong's Basic Law", *South China Morning Post*, 3 March 2017, at <http://www.scmp.com/news/hong-kong/politics/article/2075835/chinas-top-political-advisory-body-seeks-grow-young> (accessed 12 May 2017).

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¹⁷ Ibid

¹⁸ Ibid

¹⁹ Ibid

²⁰ For a discussion on the 2016 work report, see Dr. Sanjeev Kumar and Dr. Rajiv Ranjan, "China's Work Report, 13th Five Year Guideline and the Emerging Debate", *ICWA Issue Brief*, 19 May 2016, at <http://icwa.in/pdfs/IB/2014/ChinaWorkReportIB19052016.pdf> (accessed 2 April 2017).

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