CHINA: Annual parliament session reinforces pro-growth pragmatism policy stance

- The GDP growth target of 5% should be easily achievable, given recent strong economic data, but the goal of creating 12mn new urban jobs is more ambitious.
- The report signals caution on fiscal and housing policy, suggesting that leaders remain wary of excessive stimulus, despite the focus on reviving growth.
- The government sought to alleviate concerns about alleged hostility to the private sector and foreign investors, pledging support and fair treatment for both groups.

China's annual parliament session, the National People's Congress (NPC), opened on 5 March with Premier Li Keqiang announcing a 2023 GDP growth target of 5%, down from last year's target of 5.5% but above actual growth of 3%.

Recent economic indicators suggest a strong rebound following China's exit from the zero-Covid policy, and earlier policy statements clearly signaled that pro-growth pragmatism will be the theme of policy this year. Most independent economists are forecasting growth above 5%, but the NPC's relatively conservative target hints that policymakers may be concerned that growth could weaken later this year, once the initial wave of post-zero-Covid "revenge spending" passes. The modest growth target may also be an accident of timing: it was likely decided at the Politburo meeting in December, when the post-zero-Covid outlook was cloudier.

The work report's other key economic target is a goal to create 12mn new urban jobs, up from last year's target of 11mn. This more ambitious targets reflects concerns about unemployment, especially among college graduates. Layoffs by consumer tech platforms and weak construction activity contributed to unemployment pressure last year, so easing the tech crackdown and reviving the housing sector are necessary to achieve this goal.

Reassuring entrepreneurs and foreign investors

The report makes various pledges apparently aimed at restoring economic confidence by easing market concerns about Beijing's perceived hostility to the private sector and foreign business. It pledges to "protect the property rights of private enterprises and the rights and interests of entrepreneurs" and to "support the private sector and private businesses in growing and expanding."

On foreign companies, the report pledges to "expand market access" and "ensure national treatment for foreign-funded companies," while continuing to pursue membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It also reiterates the "two unwaverings," a policy slogan that connotes fair and equal treatment for non-state companies.

On Hong Kong and Taiwan, the language is boilerplate, with no sign of policy change and nods to "One Country Two Systems" and the "One China Principal." But on Taiwan, the report places greater emphasis on "peaceful" development of cross-straits relations, with this theme mentioned three times, compared to only once in last year's report. This emphasis may reflect an effort to reassure the international community that an invasion is not imminent.

Caution on housing stimulus, fiscal policy

On housing, the work report signaled a balanced stance. On the one hand, it pledges to stabilize house prices, land prices, and market expectations, echoing the motivations behind the quasi-bailout of housing developers launched late last year. On the other hand, the report repeats President Xi Jinping's slogan that "houses are for living in, not for speculation," which signals ongoing caution about excessive stimulus that would re-introduce moral hazard.

On fiscal policy, the official deficit target is 3% of GDP, up slightly from 2.8% last year, but this target has limited value because it excludes various forms of fiscal and quasi-fiscal revenue and outlays. On a broad measure of the fiscal deficit — including funding from policy banks, land sale revenue, value-added tax (VAT) rebates, and "special-purpose" bonds linked to specific infrastructure projects — the deficit could fall to 7.4% of GDP this year from 8.1% last year. The smaller deficit partly reflects lower Covid-related spending and lower VAT rebates this year. The effect will not be highly contractionary, however, as many companies have unspent VAT rebate cash on hand. Military spending is projected to grow 7.2%, roughly in line with nominal GDP but faster than overall government spending.

A year of policy transition

The NPC traditionally sets the policy agenda for the year ahead, but this year's session has the additional responsibility of selecting a new set of state leaders, following the turnover of top party roles at the 20th Party Congress in October. This impending personnel transition may explain why, apart from the targets mentioned above, Li's work report contains relatively few concrete policy signals. The 32-page report devotes 26 pages to praising past accomplishments compared to only six pages to policy objectives for this year, a reversal from last year's report, which devoted 22 of 30 pages to forward-looking statements.

The emphasis on the past suggests that Li and his deputies sought to avoid constraining their successors with explicit policy commitments. On economic policy, the two key figures are Li Qiang, the ex-Shanghai party secretary expected to succeed Li Keqiang as premier, and He Lifeng, who will likely succeed Liu He as vice premier in charge of economic and financial affairs.

At the end of the parliament session, which typically lasts about ten days, the NPC will approve a plan for restructuring government agencies. The Communist Party's Central Committee approved that plan at its second plenary meeting, which concluded on 28 February, but the details are not yet public. We will comment on this bureaucratic restructuring and the key personnel appointments once full details are available.

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