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Chinese Government's Economic Goals for 2020

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In a government work report presented on 22 May during a session of the 13th Chinese parliament, Premier Li Keqiang did not specify the 2020 economic growth target, the first time that has happened since 1990. The reason is the uncertain global economic situation because of the COVID-19 pandemic. The government plans to increase economic stimulus measures to primarily stabilise the labour market.

What goals were set?

The most important goal is to stabilise China's labour market and avoid a lower standard of living for its citizens. The authorities plan to create more than nine million new jobs (the least since 2013), maintain unemployment in cities at the current level of about 6% (in fact it can be as high as 20%) and revive consumption. Incomes of the population are to be doubled this year compared to 2010 to fulfil the promise of building a "moderately prosperous society". The government also announced the elimination of poverty (calculated according to Chinese criteria), that it will maintain balance in foreign trade and a basic equilibrium in the balance of payments, reduce energy consumption in the economy and environmental pollution, as well as preventing threats that may appear in the financial sector. Inflation is to be maintained at around 3.5%. To achieve these goals, the government plans to increasingly stimulate the economy, among other approaches.

What stimulus actions will the government undertake?

The government will transfer 2 trillion yuan ($280 billion) to provincial authorities to, among others, support employment. Half of the funds are to come from special government bonds not included in official public debt (a similar tactic was used during the Asian financial crisis in the late 1990s), and half from increasing the deficit, which is to amount to 3.6% of GDP, by 0.8 percentage points more than a year ago. The provinces are to issue their own bonds in the amount of 3.75 trillion yuan ($525 billion) to finance investments, including so-called "new infrastructure", such as 5G networks. The authorities also announced further cuts in taxes and fees for enterprises in the amount of about 2.5 trillion yuan ($350 billion), which may also benefit foreign companies, and increased access to credit, for example, through further interest-rate cuts. The government wants to improve the financial situation of companies, mainly those with high employment, along with limited pressure on public finances and maintaining a high credit rating.

In which sectors have reforms been announced?

A three-year plan of changes in state-owned enterprises was announced, including an increase in the involvement of private capital in them under so-called "mixed ownership". Regulations affecting the unequal treatment of state and private companies, such as access to capital, are to be changed. Business facilitations will be introduced, including wider access to online government services. The prime minister also announced the strengthening of the intellectual property protection system and further opening of industries for foreign investment, including in the services sector, which may be an incentive to maintaining part of global value chains in China. Despite stimulating the economy during the pandemic, the government indicates its readiness to expand the use of market mechanisms in the long term to increase the competitiveness of the Chinese economy.

What do the Chinese government's plans mean for the European Union?

Reinvigorating the Chinese economy through stimulus measures, including an increase in consumption, would have a positive effect on EU exporters and would accelerate the restarting of the EU's economy. However, rapid economic recovery in China will be difficult to achieve, in part because of uncertainty among consumers. Carrying out at least some of the announced reforms, including greater openness to investment in the services sector (the PM did not mention the conclusion of an investment agreement with the EU) or strengthening intellectual property protection, would also be beneficial for EU companies. However, after the pandemic, the state will continue to play a large role in the Chinese economy, including stimulating growth. Despite the Chinese authorities' announcement of support for free trade, it is possible they will introduce barriers, mainly non-tariff ones, to protect weakened Chinese companies from foreign competition.