



7 April 2019

'An assessment of the Second Plenum of China's 13<sup>th</sup> National People's Congress'

by JAYADEVA RANADE

**EXECUTIVE SUMMARY**

2158 delegates of the Chinese People's Political Consultative Conference (CPPCC) and 2948 Deputies of the National People's Congress (NPC) convened in the Great Hall of the People in Beijing in the first fortnight of March 2019, for their respective annual plenary sessions. The plenary sessions set the agenda for the year ahead and accorded formal approval of the entire 89 million-strong Chinese Communist Party (CCP) to the policies, programmes and budget of the CCP leadership for the coming year.

The backdrop to the plenums this year is the mounting dissatisfaction with Xi Jinping and his policies that has been spreading throughout China since the latter half of last year. Senior Party cadres and reputed Chinese academics have publicly articulated their opposition including against the abolition of age and term-limits for the posts of Chinese President and Vice President and the CCP Politburo. They specifically warned against any return to the 'one-man' rule of Mao Zedong. There is disaffection among students and PLA personnel. The CCP leadership's anxieties about discontent among veteran and demobilised soldiers was reflected in Chinese Premier Li Keqiang's 'Report on the Work of the Government' presented to the NPC on March 5.

Worker discontent has risen with 1795 strikes -- higher than in the previous year -- reported across China. They occurred in every province of China except the Tibet Autonomous Region (TAR). Economists and owners of private enterprises too criticised government policies, highlighted serious doubts about the economy and questioned China's GDP growth. One CPPCC member warned China's private business entrepreneurs to prepare for a "winter colder and longer than expected"! Restrictions in the Party's Constitution on private property and failure to reform the State owned Enterprises (SoEs) were criticised.

Nonetheless Xi Jinping's authority and pre-eminent position as the "core of the

Party” was amply clear in each of the Reports presented to the NPC. Chinese Premier Li Keqiang’s ‘Report on the Work of the Government’ this time contained 15 references to Xi Jinping and not a single one to Mao Zedong, Deng Xiaoping or his predecessors. Only Xi Jinping’s political ideology found mention in the reports. A subtle reminder of Xi Jinping’s authority was the presence of China’s Vice President Wang Qishan on the rostrum.

Chinese Premier Li Keqiang’s Report candidly acknowledged that China will face a tougher year ahead. He said "we will face a graver and more complicated environment as well as risks and challenges... that are greater in number and size." At the same time he underscored China’s resolve to press ahead with its goals, saying that “China is still in an important period of strategic opportunity”. In an obvious attempt to ease U.S pressure, Li Keqiang’s report omitted all reference to the hi-technology ‘Made in China 2025’. While mention of the Belt and Road Initiative (BRI) was similarly buried in a single line in a sub-paragraph on domestic connectivity, interesting was Chinese Vice Minister of Commerce, Qian Keming’s attempt to dismiss reports of it being a debt trap. Military-Civil integration and military modernisation were mentioned in some detail.

Highlights of the NPC session include the lowered GDP growth rate of 6 – 6.5 per cent for 2019; commitment to provide 11 million new jobs; reduce rural poverty by 10 million; increase the national defence budget by 7.5 per cent to approximately US\$ 177.6 billion; and approval of a 5 per cent increase in national security expenditure. Pensions were raised by 5 per cent. There was emphasis on innovation, R&D, agriculture and food grain production and rural development. It disclosed that there are 80 million taxpayers in China. Pertinently, Li Keqiang emphasised the need to “realise the dream of national rejuvenation”!

Unusually, India came in for quite lengthy mention on the sidelines of the NPC. One NPC Deputy, An Ran recommended promotion of border trade. Chinese Foreign Minister Wang Yi tried a thinly veiled ‘balancing’ act by claiming that China played a “constructive role” in defusing tensions between India and "China’s iron brother" Pakistan over Pulwama and, simultaneously referring to the need to promote bilateral ties in keeping with the “historic Wuhan spirit”! The face-off at Doklam also figured during the NPC.

A detailed assessment of the Second Plenary Session of the 13<sup>th</sup> National People’s Congress is appended.

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1. As per tradition, China convened the plenary sessions of its top political advisory body, the Chinese People's Political Consultative Conference (CPPCC) and China's version of a parliament, the National People's Congress (NPC), in the Great Hall of the People in Beijing in the first fortnight of March. Popularly referred to as the 'Lianghui', or 'Big Two', the plenary sessions set the agenda for the year ahead. 2158 delegates of the Chinese People's Political Consultative Conference (CPPCC) and 2948 Deputies of the National People's Congress (NPC), gathered in Beijing from March 9 - 11, 2019 and March 5 - 15, 2019 respectively to formally accord approval of the entire 89 million-strong Chinese Communist Party (CCP) to the policies, programmes and budget of the CCP leadership for the coming year.
2. The backdrop to the plenary sessions was the dissatisfaction with Xi Jinping and his policies that has been spreading throughout China since the latter half of last year. Senior Party cadres and reputed Chinese academics, like the former editor of the Communist Youth League (CYL)'s official newspaper Li Datong, Peking University alumnus Fan Liqun and Tsinghua University's Xu Zhangrun, have publicly articulated their discontent including against the abolition of age and term-limits for the posts of Chinese President and Vice President and the CCP Politburo. They specifically warned against any return after thirty years to the 'one-man' rule of Mao Zedong. Worker discontent has also been on the rise with 1795 strikes -- higher than in the previous year -- reported across China. They occurred in every province of China except the Tibet Autonomous Region (TAR). Protests by veteran and demobilised soldiers added to the CCP leadership's anxieties and their concern is reflected in the series of measures adopted since mid-2018 to ameliorate the unhappiness of veterans and demobilised personnel. Chinese Premier Li Keqiang specifically referred to the need for promoting their welfare in his 'Report on the Work of the Government' presented to the NPC on March 5.

3. Economists and owners of private enterprises too were unusually candid in their criticism of government policies. Renmin University Prof. Xiang Songzuo highlighted serious doubts about the economy at a public function, which was promptly censored on the Chinese internet, declaring that a "research group of an important institution" released an internal report stating China's GDP growth this year was about 1.67 percent! Chen Hongtian, Chairman of the Cheung Kei Group and member of the CPPCC, warned China's private business entrepreneurs to prepare for a "winter colder and longer than expected". Others were critical, for example, of the restrictions in the Party's Constitution on private property, and failure to reform the State owned Enterprises (SoEs) which, they said, had on the contrary expanded to enter every area of economic activity. There is disaffection among students and PLA personnel too.
4. To prevent disruptive incidents and avoid embarrassment to China's leadership, elevated levels of security were enforced in the period around the meetings. Beijing, Tianjin and other cities initiated "stability-maintenance" measures and Chinese State Councillor and Minister of Public Security, Zhao Kezhi was in Tianjin from February 22 to 23, to supervise safety measures. Li Chunsheng, head of the Guangdong Provincial Public Security Department, told public security officials in Guangzhou that there were sensitive anniversaries this year and warned that "hostile forces inside China have long marked this year as an important time to implement their plan – which is a vain attempt – to overthrow our system."
5. Enhanced security measures were similarly evident in Tibet because of the 60<sup>th</sup> anniversary this year of the abortive 1959 uprising against Chinese rule in Tibet and the XIVth Dalai Lama's flight to India. Tibet was declared off-limits to journalists and foreigners for an extended period till April 30 and TAR leaders inspected Tibetan Buddhist monasteries and convened a series of conferences of security cadres to 'uncover' and 'eliminate' the "double-faced cadres" owing loyalty to the Dalai Lama. Chinese armed police personnel and armoured police cars staged a show of force in Lhasa on March 7.
6. Despite these signs of discontent, the Reports presented to the plenary sessions by Chinese Premier Li Keqiang and CPPCC Chairman Wang Yang bore the firm imprimatur of Chinese President Xi Jinping and

affirmed his authority.

7. Reports presented to the NPC by Chinese Premier Li Keqiang, the Ministry of Finance and NDRC all opened with acknowledgments of Xi Jinping's position as the "core of the Party". Chinese Premier Li Keqiang's Report contained 15 references to Xi Jinping and not one to Mao Zedong, Deng Xiaoping or his predecessors. Only Xi Jinping's political ideology found mention in the reports. Of the 15 tasks mentioned in his report, the first two listed following "the strong leadership of the Party Central Committee with Xi Jinping at the core" and "Xi Jinping Thought on socialism with Chinese characteristics in the New Era". The final day too closed with the exhortation "the Chinese nation is in a crucial period of great rejuvenation. We must be more closely united around the Party Central Committee with Comrade Xi Jinping as the core."
8. Chinese Premier Li Keqiang took over 100-minutes to read the Report on the Work of the Government to the 2948 NPC Deputies. The 16,160-word, 44-page Report attributed China's achievements of the past year to the leadership of the Chinese Communist Party (CCP) "with Xi Jinping at its core". Li Keqiang said "We owe our achievements of the past year to the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core, to the sound guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and to the concerted efforts of the Party, the military, and the people of all ethnic groups in China." Specifically endorsing Xi Jinping's "core position" in the Party, he declared "We should resolutely uphold General Secretary Xi Jinping's core position on the Party Central Committee and in the Party as a whole, and resolutely uphold the Party Central Committee's authority and its centralized, unified leadership. And we should maintain a high degree of unity in thought, stance, and action with the Party Central Committee with Comrade Xi Jinping at its core and exercise full and rigorous self-discipline in the Party".
9. Li Keqiang's Report acknowledged the pressures that China had faced the previous year mainly because of the US-initiated 'tariff war' and strain in Sino-US relations and candidly admitted "Setbacks in economic globalization, challenges to multilateralism, shocks in the international financial market, and especially the China-US economic and trade frictions, had an adverse effect on the production and business operations of some companies and on market expectations". Nevertheless, reviewing

the previous year's performance, he claimed "joint efforts to pursue the Belt and Road Initiative are producing a pace-setting effect, cooperation mechanisms for countries along its routes are steadily improving, and economic cooperation, trade, and cultural and people-to-people exchanges under the Initiative have gathered momentum". He also said growth in hi-tech industries and equipment manufacturing had outstripped that of other industries and there had been a number of technology innovations with an average of 18,000 new businesses opening daily.

10. Chinese Premier Li Keqiang's report, however, anticipated a tougher year ahead. He said "In pursuing development this year, we will face a graver and more complicated environment as well as risks and challenges... that are greater in number and size." He added "We must be fully prepared for a tough struggle." Indicating that China will nevertheless press ahead with its goals, he underscored that "China is still in an important period of strategic opportunity".
11. In a bid to stimulate the economy, Li Keqiang told NPC delegates that China would aim to deliver nearly 2 trillion yuan (\$ 298 bn) of cuts in taxes and other company fees. A value-added tax (VAT) for transportation and construction sectors will be sliced from 10% to 9%, and VAT for manufacturers will fall from 16% to 13%. On the concluding day of the session on March 15, the National People's Congress (NPC) passed the Foreign Investment Law (FIL). The law was fast-tracked as part of efforts to appease the US in the ongoing trade negotiations. To ensure its quick passage, legislators scrapped some of the thornier issues raised in a previous draft, and instead passed a relatively vague piece of legislation. The practical implications of the law are, therefore, still unknown. However addressing the concerns of foreign businesses, Chinese Premier Li Keqiang said at his press conference (March 15) "The government will introduce a series of matching regulations and directives to protect the rights and interests of foreign investors." He reiterated "These will be the important things for the government to do in the following weeks and months to see that this law will be truly operable."
12. The Report on the Work of the Government took note of the popular discontent. Li Keqiang said "there is still public dissatisfaction in many areas such as education, health care, elderly care, housing, food and drug safety and income distribution". He noted that there are 250 million people over 60 years of age. He also acknowledged that the difficulties faced by

private firms and small and micro businesses in accessing affordable financing has not been effectively solved.

13. Highlights of this NPC session included the lowered GDP growth rate of 6 – 6.5 per cent for 2019; commitment to provide 11 million new jobs; reduce rural poverty by 10 million; increasing the national defence budget by 7.5 per cent to approximately US\$ 177.6 billion; and approval of a 5 per cent increase in national security expenditure. Pensions were raised by 5 per cent. There was emphasis on innovation, R&D, agriculture and food grain production and rural development. An interesting disclosure was that there are 80 million taxpayers in China. Li Keqiang stated that the rate of increase of the defence budget was a “little faster” than the GDP growth and emphasised the need to “realise the dream of national rejuvenation”!
14. He also dwelt on military-civil integration and military modernisation. Unprecedentedly, the Premier’s report admitted that “China faced a complicated and challenging domestic and international environment of a kind rarely seen in many years, and its economy came under new downward pressure”. In an obvious attempt to ease U.S pressure, his report omitted all reference to the hi-technology ‘Made in China 2025’. Similarly, mention of the Belt and Road Initiative (BRI) was buried in a single line in a sub-paragraph on domestic connectivity.
15. The Finance Ministry report mentioned that an Individual Tax Law is being considered. It reiterated the curbs on ostentation and prohibited the purchase of official vehicles and imposed cuts on travel, hospitality etc. The budget for poverty alleviation, a programme personally driven by Chinese President Xi Jinping, was increased by 8 per cent to 126.095 billion Yuan with particular mention of the TAR and Xinjiang, while 577.6 billion Yuan were set aside for infrastructure investment with 200 billion Yuan for railways including the Sichuan-Tibet Railway. Other highlights were the 7.4 per cent increase for the Ministry of Foreign Affairs raising its budget to 62.71 billion Yuan and enhancement by 13.4 per cent of the investment in S&T, which now totals 354.312 billion Yuan.
16. But there was an attempt at dismissing reports on debts incurred by nations participating in the BRI. China’s Vice Minister of Commerce, Qian Keming, said at a press conference (March 9) in Beijing that trade and infrastructure strategy was not a “one-way street”. He said “Historically, the international debt problem is an old problem. While some countries’ debts have risen, this is the result of long-term accumulation.” Giving the

example of Pakistan and the China Pakistan Economic Corridor, he said 42 per cent of the country's debt was from multilateral institutions, while "only around 10 per cent" could be attributed to China. Referring to criticism of the BRI, he said "Only those who need money are willing to borrow. From the perspective of lenders, as long as your relationship is good and the funds are safe, then you will be willing to lend. I don't think third parties should worry about the borrowers and lenders." He added that across Asia, US\$1.7 trillion in infrastructure investment was needed every year up to 2030, but only half of that amount was being met. Qian Keming added that the Commerce Ministry would step up economic and trade cooperation zones and investment activities overseas to facilitate development of the belt and road program.

17. NPC Chairman Li Zhanshu delivered the NPC's annual work report, which laid out the priorities for the coming year. He said they will continue to deliberate the Civil Code and listed the eight laws presently before the legislature namely: (i) Amendment No. 11 to the Criminal Law; (ii) Basic Healthcare and Health Promotion Law; (iii) Property Tax Law; (iv) Export Control Law; (v) Community Corrections Law; (vi) Civil-Military Integration Development Law; (vii) Veterans Protection Law; and (viii) Governmental Sanctions Law. The NPC will also revise six laws: Securities Law; Officers in Active Service Law; Military Service Law; People's Armed Police Law; Organic Law of the National People's Congress; and Rules of procedure of the National People's Congress. The NPC will additionally begin studying and drafting laws on Biological Safety Law and Yangtze River Protection Law.
18. Of these, the most talked about is the Property Tax Law. Observers say if the government ever introduces a property tax, it will have major ramifications for the property market and the larger economy. More importantly, it could change the relationship between the citizens and the state.
19. On the sidelines of the NPC sessions and probably to make it easier for enterprises to access funds, People's Bank of China (PBoC) Governor Yi Gang said (March 7) China has cut the ratio of cash that banks must hold as reserves five times in the past year, in the face of the weakest economic growth in 28 years amid slowing consumption and the trade conflict with Washington. He revealed that the yuan-dollar exchange rate has been a subject of discussion in trade talks with Washington. While Yi

Gang said "There has been an obvious increase in support from financial institutions to small and private business recently," PBoC Vice Governor Pan Gongsheng said the central bank has a goal of increasing loans by large commercial banks to small companies by 30% from 2018 -- a target Premier Li Keqiang mentioned in his government work report. The central bank also appeared to be managing investor expectations on the traditionally risk-free bond market, with the Deputy Governor saying it's good to have some defaults. He noted there was an increase in bond defaults last year, but the level is still lower than in most other countries.

(Comment: Chinese officials use the term "56789" to refer to importance of private enterprise. These companies, many of them small, are said to account for 50% of tax revenue, 60% of gross domestic product, 70% of innovation, 80% of urban labor, and 90% of the total number of companies in the country.)

20. Interesting were the comments of Yin Zhongqing, Deputy Director of the NPC Financial and Economic Affairs Committee, where he cast doubt on the accuracy of economic data furnished by the government. Beijing News quoted him as saying, at a press conference on March 10 during the NPC, that the total amount of all local GDP added together is greater than the national GDP due to data fraud. He said "There is a discrepancy between regional and national GDP figures and it has negatively affected the credibility of the government. Some local governments tend to cook their books, inflate some statistics, or conceal some data to stand out from the competition." Yin Zhongqing added that a number of factors contribute to data fraud. First, people do not comply with the law and data fraud persists despite repeated crackdowns. Second, local governments, businesses, and residents are overburdened with data calls from different government agencies. Third, many government agencies apply different standards, resulting in inconsistencies in the data collected. Fourth, punishment over data fraud is "too light." Fifth, a lot of statistical indicators are still defined according to the planned economy and do not reflect actual development.

21. The Tibet Autonomous Region (TAR) figured at the NPC. TAR Party Secretary Wu Yingjie addressed a press conference of 127 foreign and Chinese journalists. Speaking at the NPC meetings on March 6, in Beijing, the Mayor and Deputy Party Secretary of TAR, Go Khok, stated that the TAR government had restricted religious activities in Tibet and that the

number of days spent observing religious events, and the number of people attending them, had both been reduced to less than 10 per cent. He told Tibetan Deputies and journalists in the Great Hall of the People that “In 2018, Lhasa ... took a clear-cut stand in eliminating the negative influence the Dalai Lama exerted via religion and took great effort in ridding the passive religious influence.”

22. The People’s Daily (March 9) reported that Politburo Standing Committee (PBSC) members Xi Jinping, Li Zhanshu, Wang Yang, Wang Huning, and Zhao Leji participated in the deliberation sessions for Fujian, Jiangsu, Tibet, Xinjiang, and Hainan, respectively. Xi Jinping focused on fighting poverty, promoting innovation and entrepreneurship, and strengthening cross-Strait integration. There were specific references during the NPC session and in Li Keqiang’s report to Taiwan and the ‘1992 consensus’. Li Zhanshu said that the Foreign Investment Law shows China’s “clear stance” on pursuing win-win strategies and building an “open world economy.” Zhao Leji spoke about accelerating plans for Hainan’s experimental free trade zone, as well as the importance of strengthening supervision. Wang Yang and Wang Huning participated in Tibet’s and Xinjiang’s deliberation sessions, respectively, and emphasised promoting national unity and stability in each region.
23. Xi Jinping also attended a plenary meeting of representatives from the People’s Liberation Army (PLA) and People’s Armed Police (PAP). He said it is essential to complete the final tasks of the 13th Five Year plan for ‘military construction’ by the deadline in 2020. He emphasized it is necessary to strengthen inspection and oversight, including with regard to finance and corruption. Speaking about the 14th Five Year plan for ‘military construction’, Xi Jinping said the plan must be adapted to the “strategic requirements” of national development, security, and the military. Outlining some of the military’s duties, he said they were wide-ranging and included protecting China’s sovereignty, maintaining social stability, supporting local economic and social development, responding to disasters, and helping “impoverished villages and people.” CMC Vice Chairman Xu Qiliang chaired the session where all members of the CMC namely Zhang Youxia, Wei Fenghe, Li Zuocheng, Miao Hua and Zhang Shengmin were in attendance.
24. While relations with foreign countries do not receive much attention at these meetings, reflecting the tension in the China-India and India Pakistan relationships this year, India came in for lengthy mention. On

March 13, Global Times reported that An Ran, a Deputy to the NPC and Professor at South China University of Technology in Guangzhou (Guangdong Province), had proposed that the country allow residents in the border area with India to trade to improve China-India relations, reduce military confrontations and benefit the local inhabitants. He said this could also showcase the achievements of China's Tibet Autonomous Region to India and other countries. He said that the proposal was based on field work conducted by a group of researchers from Yunnan University in Southwest China. Yunnan Province borders the Tibet region, Vietnam, Laos and Myanmar. Professor Guo Jianbin, the group's team leader, told the Global Times that his team went to some counties, including Lhozhag, Lhunze in Shannan Prefecture and Medog and Zayu in the city of Nyingchi, "South Tibet" in July and August 2018, and found that because the militaries of China and India in the illegal "McMahon Line" are "tight, residents in the border areas are not allowed to cross the line freely". However, in some areas, some residents, mainly those from the Lhoba ethnic minority group, have crossed the "line" to trade. He added "we found that the villages in the border areas have wide roads and a clean environment. If China allows residents living on the other side to trade, all these achievements and developments will help better unite the residents in border areas." Separately, Hu Zhiyong, a Research Fellow at the Shanghai Academy of Social Sciences' Institute of International Relations, told the Global Times (March 13) that the move could help deepen understanding between China and India. He added "Indian Prime Minister Narendra Modi may welcome it to gain support in the elections", however, China should watch India's moves as India has been suspicious and hostile toward China.

25. There were some other interesting, though tangential, references to the India-China relationship. On the sidelines of the NPC on March 8, Chinese Foreign Minister Wang Yi claimed Beijing had played a "constructive role" in defusing tensions between India and Pakistan over Pulwama and, referring to the "historic" Wuhan meeting asserted that "the strategic understandings of our leaders trickle down to our people and become a common view". He said that New Delhi and Islamabad should "meet each other halfway" to de-escalate the crisis. Describing Pakistan as "China's iron brother", Wang Yi said "China has stressed from the beginning the need to exercise calm and restraint, prevent an escalation, find out what has happened, and resolve the matter through dialogue." He added "China hopes that Pakistan and India will transform the crisis into

an opportunity and meet each other halfway. We advise both parties to quickly turn this page and seek fundamental, long-term improvement in their relations.”

26. Apparently to balance the comments, Xinhua reported that at the same press conference Chinese Foreign Minister Wang Yi spoke in positive terms about the India-China relationship. He said China and India should be each other's partner in pursuing their respective dreams and each other's important opportunity for growing respective economies. He said the two countries should collectively make due contribution to Asia's revitalization and prosperity. Wang Yi added that the historic meeting between President Xi Jinping and Prime Minister Narendra Modi last year has created a new model of high-level interactions between the two countries, enhanced the mutual trust and friendship of leaders of the two countries, and set the direction for future relations. Government departments on both sides have done a lot and made considerable progress in following through on many of the understandings reached by the leaders. Wang Yi said "The priority now is to see that the strategic understandings of our leaders trickle down to our people and become a common view and conscious efforts." He added that China will work with India to comprehensively strengthen pragmatic cooperation and people-to-people exchange, so that "our friendship and cooperation will surge ahead like the Yangtze and the Ganges, giving strong and sustained impetus to our relationship."
27. The stand-off at Doklam, which seems to still rankle the Chinese, also figured obliquely. Discussing China's military modernisation with two Chinese military experts on the state-owned CGTN, well known Chinese TV anchor Yang Rui referred to Doklam during his programme on March 16. Earlier on February 15, the state-owned PLA Daily reported that 37 NPC Deputies had proposed amendments to China's Criminal Law to curb military-related rumours online to protect the image of the People's Liberation Army (PLA). Jiang Yong, Political Commissar of the PLA Beijing Garrison Command and one of the NPC Deputies, specifically cited "China offering soft loans of 20 billion yuan (\$2.95 billion) to India in exchange for their retreat" as a "major false rumour." This rumour which spread rapidly across China (and was reported in my article in Sunday Guardian on September 2, 2017) had caused serious concern to China's leadership. It was, very unusually, denied at the time by China's Ministry of National Defence, China's Ministry of Foreign Affairs (MFA) and the

CCP's official mouthpiece, People's Daily.

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