

New Economic Directions in China under the New Leadership: Challenges and Opportunities with Global Implications

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Abstract

China just concluded its 14th National People's Congress under the third term of President Xi Jinping and a new leadership team led by Premier Li Qiang. What are the intended economic and political ambitions of this new leadership? This essay provides an overview of likely directions under the leadership of the newly formed central government, and their implications for the global economy.

Introduction

The 14th National People's Congress (NPC) of China was recently held in Beijing in March 2023. This event marked a new era of further economic consolidation under the 3rd term of President Xi Jinping with a fresh new top administrative team, namely the State Council, comprising the new Premier Li Qiang and other four Vice Premiers (i.e., Ding Xuexiang, He Lifeng, Zhang Guoqing and Liu Guozhong). For the next five years at least, this leadership team will lead the nation for further economic development and meet the challenges domestically and internationally.

Given that China has already become the 2nd largest economy globally, the challenge for the new leadership team is whether China can embrace further development over the next five years in order to achieve its national goal to become the world Number One economy before 2030. This essay elaborates on the main agenda being discussed during the recent NPC with the emphasis on the future development based on the speech made by the

newly elected Premier Li Qiang at the NPC's press conference.¹ By doing this, we hope to share some critical insights regarding the priorities of national development of China over the next five years, along with regional and global implications.

Reviewing the speech made by newly elected Premier

Clearly, the newly formed government leadership team is facing a number of challenging issues and they need to prioritize their agenda. At the NPC's press conference, the journalists from all over the world asked the newly elected Premier for two hours about what he would see key areas for concern. The first issue for him is related to the goals and priorities of the new government and how the government will carry out its work. Premier Li highlighted a list of goals and priorities in his speech, including 'people-centered development' approach -- not just focusing on GDP, but greater concern about things that affect people's everyday life, like housing, employment, income, education, medical services, and the environment. According to Li, "the government must always plan and carry out its work according to the people's wish."² Other priorities include promoting high-quality development (i.e., enhance the self-reliant capacity of scientific and technological innovation, build a modern industrial system, and transition toward green development), and deepening reform and opening-up (i.e., promote high-level opening-up, and inject stronger vitality into China's development by deepening reform).

The second key area for concern is related to revitalizing economy in the post-Covid-19 era. Issues such as what policies will be enacted to achieve sustainable, high-quality growth will be addressed? Premier Li laid out some action plans which cover multiple issues and challenges in his response. The challenge of global instability ahead, and China's target of sustaining five percent annual growth (i.e. total economic output has already exceeded 121.02 trillion RMB, around \$18.32 trillion in 2022). This is not an easy task, and it would require redoubled efforts, such as implementing a number of policy combinations of macro policies, expanding demand, advancing reform and innovation, and preventing and defusing risks. The top leadership is also aware that China's economic development has a number of advantages that could be used for achieving sustainable development, such as a super-sized market, a well-functioning industrial system, rich supply of human talent, and a strong development foundation which most other competing countries are lacking.

The third area for concern is related to advancing private sector to counter the recent debate over *Guojin Mintui* (国进民退), an alleged phenomenon meaning "the state enterprises advance, the private sectors

retreat." Premier Li has been known as a pro-private sector leader in his previous leadership positions in Zhejiang, Jiangsu and Shanghai -- the most advanced economic region in China with significant proportion of private sector. The public is interested in additional measures to boost the confidence of private companies and support their development under the new leadership.

Premier Li highlighted the policy "two-unswervingly," that is, unwaveringly consolidating and developing the public sector and staunchly encouraging, supporting and guiding the development of the non-public sector, as an important component of China's basic economic system. However, he also pointed out "there were some incorrect discussions about private entrepreneurs last year, which made them feel concerned." As the way moving forward, the government will create a level playing field for all kinds of market entities and make further efforts to support private enterprises to grow and thrive, including opening up those sectors which were only allowing the public sector to invest in the past, such as telecom, and other strategic infrastructure businesses.

These encouraging statements are consistent with President Xi who also adopted a more conciliatory tone in recent years by saying that 'the private owners are our family members' and should be looked after.³ In his recent speech, Xi pointed out that the private sector is an important force for the Party to maintain its long-term governance and regard private enterprises and private entrepreneurs as being in their own ranks, giving support when they are in difficulty and offering them guidance when they are uncertain about what to do. The government should improve the development environment for private enterprises, remove institutional obstacles that prevent them from fairly participating in market competition, and safeguard the property rights of private enterprises and the rights and the interests of private entrepreneurs according to law. In addition, the government should substantiate the requirement that state-owned enterprises and their private counterparts should be treated equally through institutional arrangements and legal guarantee to encourage and support the development of the private sector and growth of private enterprises, and boost market expectations and confidence.⁴

The fourth area for concern is related to unemployment, negative population growth and possible policy on postponing retirement age. Under the impact of Covid-19, unemployment problem had accelerated. Premier Li emphasized the new policy based on the so-called 'employment-first strategy,' which will increase government support for employment services and technical training. The intent is to take multiple steps to stabilize and

expand employment, and support and regulate the development of new forms of employment, particularly through entrepreneurship and start-ups.

With respect to the negative population growth in China, some people are worried that China's demographic dividend may be disappearing. Premier Li argued that he doesn't think it is that simple. When assessing demographic dividend, people should look at not just the quantity but also the quality of population, namely not just the sheer size of the population, but also the scale of high-caliber workforce. China's demographic dividend has not disappeared while the talent dividend is in the making by improving education and training and lifting the overall quality of workforce as well as adopting AI and computerized production systems. In addition, dealing with aging population, the policy of postponed retirement has been put as an agenda, and the government will conduct studies and thorough analysis to roll out the policy prudently in due course. Currently, the official retirement age in China is 55 for women and 60 for men.

The fifth area of concern is the most arduous and complex task of rural development given that there are still some 500 million permanent rural residents. Without the modernization of the rural sector and agriculture, the process of modernization would not be complete. In promoting rural revitalization, Premier Li spoke of three keywords: comprehensiveness, distinctive features, and further reform.

As for comprehensiveness, rural revitalization is not just about economic growth, but fully bringing out the economic, ecological, social and cultural value of the countryside. As for distinctive features, given China is a vast country with diverse cultures and customs, different localities must develop their countryside based on local conditions. It is important to cultivate distinctive local features, protect and preserve the local and rural cultures, and avoid a situation where all villages look the same. As for further reform, the governments need to deepen reform in the rural sector and provide drivers for rural revitalization. Farmers are principal actors in rural revitalization and should be given opportunities to fully bring out their initiative, take part in reforming the rural sector, and share the benefits of reform and development. With respect to the issue of food security, the Premier Li pointed out that the total grain output in China has stayed above 650 million metric tons for eight years in a row. Overall, food security is well guaranteed in the country. Going forward, China will further increase the grain production capacity by focusing on two key factors: arable land and seeds. The goal of ensuring that 'the rice bowl of the 1.4 billion Chinese people will always be firmly held in our own hands,' remains supreme.

The sixth area of concern is related to the new requirements on the governing capacity and the conduct of the government under the new

administrative leadership. Premier Li indicated that there will be a new round of state institutional reforms as an opportunity to strengthen government capacity with four priorities. The first priority is that the central and local governments should promote the practice of research and study by reaching out to the people and finding solutions by working together with them. The second priority is to promote government administration in accordance with the law. The government must act within the confines of the law, and all administrative conduct must be based on solid legal grounds. The third priority is to explore innovative ways of performing government's role and duties. Government departments at all levels and civil servants must be conscious of their duty to serve the people and promote the country's development. The fourth priority is to uphold the principle of integrity. The leadership will apply stringent standards and measures in building a transparent government and assume a zero-tolerance attitude to all acts of corruption. All government officials must subject themselves to supervision, and truly meet the requirements of being loyal, upright, and responsible.

The final area of concern for Premier Li is related to global geo-political tensions. Premier Li remarked that reform and opening up have enabled China to develop itself and also made an impact on the whole world. Most foreign companies are still optimistic about their development prospects in China under the current influence of international climate. In 2022, foreign direct investment inflows into China totaled over US\$189 billion, a record high, and almost US\$50 billion higher than that of three years ago before the Covid-19. This demonstrates that China remains a popular destination for global investment.

Thus, the opening-up principle is a basic state policy for China. No matter how the external environment evolves, China will stay firmly committed to pursuing this policy. A good example is the China International Import Expo (CIIE) in 2022 which has been held uninterrupted for five years, even during the pandemic, with over 2,800 enterprises from 127 countries and regions attending. The example of the CIIE proves that an open, big Chinese market promises big opportunities for companies from around the world.

Looking into the future, the Chinese government appears intent on further expanding the opening-up strategy in alignment with high-standard international trade rules with a better environment and better services for all. An open China welcomes investors from all over the world. As for the specific issues concerning China-US relations, the new Premier stressed that it is important for both sides to work with each other through concrete actions.

By using his own experience as the top leader in Shanghai in 2022, Premier Li believes that China and the U.S. are closely intertwined

economically with increasing trends in two-way trade. He reached this contention through his discussions with the senior managers of multinational corporations, including many American companies in Shanghai. Li pointed out that many foreign investors are optimistic about the future of Shanghai and China and wished to achieve win-win results through cooperation. He argues that China and the U.S. can and must cooperate and there is much that the two countries can achieve by working together. Premier Li also emphasized that “encirclement and suppression are in no one’s interest.” The tone adopted by the Premier is more conciliatory towards the U.S., but fundamentally it is consistent with President Xi who had made it clear by emphasizing greater self-reliance and strength in science and technology. President Xi wishes to promote industrial transformation in China as a way of countering stepped-up U.S. pressures through export control measures aimed at blocking China's access to chip-making equipment and other technologies.⁵

Evaluation of current economic conditions in China

The time of the newly formed central government leadership team coincides with the turning point of ending the ‘zero Covid-19 policy’ which has dragged on for nearly three years since early 2020. People have developed high expectations for the new leadership team to promote economic development further with higher growth, more job opportunities, and improved economic and social life. Based on the review of current economic conditions presented here, one can see that both strengths and weaknesses exist in the domestic and international arena.

The overall economic conditions are favorable for further economic development, including key economic indicators. These include relatively high gross savings rate of 45.9% of GDP in 2022,⁶ relatively low central government debt accounting for 20.8 % of its nominal GDP in 2022,⁷ relatively low CPI of 3.5% in Feb. 2023,⁸ recovered PMI with 52.6 in Feb. 2023,⁹ increasing consumer confidence with 91.2 points in Jan. 2023,¹⁰ recovered FDI with 6.1% increase from a year earlier (CNY 268.44 billion) in the first two months of 2023.¹¹

Yet, there are also several challenging areas which continue to influence the overall economic performance, such as accumulated local government debt, continuing decline of international trade and increasing unemployment rate. The accumulated local government debt is worth almost 15 trillion yuan (\$2.1 trillion) due to property crisis, and more than 40% of outstanding debt will fall due over the next five years.¹² One of the policy initiatives is to revitalize the property market development in order to provide opportunities to the local government to generate new revenues.

Other policies are associated with promoting local industry development by lifting the quality of production system and expanding the demand domestically and internationally. Promoting entrepreneurship with incentives for SMEs and expanding domestic market demand are seen as national policy priorities recently, given the uncertainty associated with global markets and geo-political tensions.

Another important area for concern is the overall decline of international trade in recent years due to the impact of Covid-19; this trend did not cease as of early 2023. The data for the first two months of 2023 shows that exports fell by 6.8% from a year earlier to US\$506.3 billion, and imports also continued their downward trend by 10.2% from a year earlier to US\$389.42 billion.¹³ Among all products, import volume of semiconductors saw the biggest dip, declining by 45.1%, while integrated circuits also dropped by 26.5 percent. As the National Development and Reform Commission (NDRC) report shows, “Downward pressure on the global economy is being compounded by the effects of protectionism, growth of global trade is slowing down, and competition in the international market is intensifying, which has made it more difficult for China to maintain stable export growth.”¹⁴ Hence, further efforts for utilizing the regional economic cooperation platforms such as the RCEP to promote regional economic integration and increasing the trade with ASEAN countries as well as African, mid-Eastern and Latin American countries have been seen as policy priority for the following years.

The third key challenging area is promoting job creation, particularly for those newly graduated university students of some 10.76 million in 2022.¹⁵ The recent survey on urban unemployment rate edged up to 5.6% in February 2023 from 5.5% in the previous three months, pointing to the highest level since Nov. 2022. The unemployment rate of the population aged 16-24 and 25-59 was 18.1% and 4.8%, respectively. Meanwhile, the jobless rate in 31 large cities and towns stood at 5.7 percent. For 2023, the government has targeted a jobless rate of around 5.5%, with the creation of about 12 million new urban jobs.¹⁶ To that end, Chinese authorities are striving to revitalize market entities, ensure employment for key groups, and support flexible employment.

Policies to mitigate such challenges include providing financial support to entrepreneurs and small and medium firms which hold around 80% of the country's jobs, such as cutting the reserve requirement ratio for financial institutions by 0.25% to strengthen financial support for epidemic-affected sectors and smaller firms. On the fiscal front, China vowed to implement a value-added tax credit refund worth around 1.5 trillion yuan (about 232 billion U.S. dollars), postpone payments of old-age insurance premiums and

refund more unemployment insurance premiums, and provide one-off employment and training subsidies to small firms. These measures help save costs for firms so that they have more incentive to retain their staff.¹⁷

In addition, to assist job seekers in better preparing for the labor market, the government will provide them with no fewer than one million internship openings this year, and allow localities to use the balance of the employment insurance funds to support vocational training programs. Special attention is being given to key groups of job seekers. The country aims to add two million high-quality jobs for college graduates and ensure no less than 30 million people who had shaken off poverty are employed this year. The flexibly employed, with their numbers coming in at 200 million and counting, will be eligible for stronger credit support and better protection from occupational hazards.¹⁸ Overall, China aims to achieve an economic growth of at least 5% in 2023,¹⁹ with each percentage point of growth expected to help generate over two million jobs.

Implications

By addressing these challenging issues and maintaining economic stability, the newly formed Chinese central government will encounter some advantages as well as difficulties in the following years. Undoubtedly, the Chinese government's policies and activities are expected to generate significant implications domestically and internationally. Domestically, maintaining economic and political stability could be seen as the most important priority. Under external pressures, particularly the hostile attitude of the U.S. government and politicians, the Chinese government could use it as an awakening call for the Chinese people to be united under its leadership and do their best to win the 'competition' vis-à-vis the US -- economically, technologically, and strategically. Observers are expecting the new government to adopt a more benevolent approach towards its own people with greater shared benefits, including a certain degree of autonomy and freedom. The government's promotion of entrepreneurship and private sector in recent years, and its response towards the 'Blank Paper' movement against the 'zero-Covid-19 policy' by terminating strict Covid policies could be seen as a signal of compromise by the government.

At the recent NPC sessions, all the attention among delegates, including the top leadership, centered on those concerns relating to ordinary citizens' wellbeing, including unemployment, aging population, survival of small and private businesses, and health and education related problems. The simple logic for the new leadership is: 'be kind to your own people, and in turn, people will support you to in defying external threats.' This can be seen as the major policy direction for the years to come.

Internationally, making a wide range of friends through the Belt and Road initiative around the world will be the priority. By doing so, China will expand its global market scope as well as spread its political and economic influence. It can also balance international power relationships and develop new platforms from western domination. South-South Cooperation will be enhanced among the emerging and developing economies through China's Belt and Road Initiative. In that sense, China could be seen as the only country that has the will and means to deliver some concrete results of South-South Cooperation. On the other hand, China's economic ties with the U.S. and Europe will continue with some decoupling elements for certain sectors, such as semiconductors and ICT, but the overall economic relationship will continue to develop based on mutual needs. At the same time, China does recognize possibly tough relationship with the West in general, and the U.S. in particular. Hence, it must be prepared for a more self-reliant policy direction for manufacturing, finance, and other strategic areas in the foreseeable future.

Conclusion

In this essay, we wished to present an overview of likely directions under the leadership of the newly formed central government in China. Given the mainstream western media mainly provides some piecemeal reports predominately with ideological judgement, this essay attempts to provide an interpretation of the broad message communicated by the new leadership. We do not wish to glorify what the new leadership intends to accomplish, but simply provide a deeper understanding of potential developments in China, and implications for the global economy. Such an understanding is essential because China is too big to be misread.

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