The National People’s Congress (NPC), China’s national legislature, met in early March 2024 to chart its annual policy direction. Following a period of uneven economic recovery, characterized by a multitude of challenges such as tepid consumer demand, a faltering property market, mounting deflationary pressures and a tense geopolitical environment, addressing the ailing Chinese economy took precedence at this year’s NPC.

The 2024 NPC outcomes have significant implications for Canada. Foremost, Canadian policymakers should expect greater diplomatic overtures from China in comparison to recent years. This is notably the case as Beijing will attempt to bolster international trade and foreign investment to remedy economic headwinds. Chinese Foreign Minister, Wang Yi, forward-looking characterization of the relationship with his Canadian counterpart, Melanie Joly, is potentially an early sign of this repositioning. Similarly, Canadian business leaders should take note of a potentially more open business environment in China, and emerging opportunities for engagement with Beijing.

WHAT’S NEXT?

The operative question surrounding China’s future economic trajectory is whether Beijing will be able to sufficiently support troubled sectors of the economy, rebuild consumer, business, and foreign investor confidence, and reverse the ongoing economic downturn. Premier Li Qiang has signalled Beijing’s seriousness in this regard, promising extensive supportive measures for the economy.

While Premier Li sketched a broadly pro-growth agenda at the NPC – one that sought to stabilize long-standing engines of economic growth like the property sector – his remarks further emphasized the importance of building up the foundations of China’s future economic development such as advanced manufacturing and increased domestic demand.
If Premier Li’s economic measures are effective, Canada can take advantage of China’s renewed macroeconomic stability. While Xi’s desire to assert ideology and security over economic growth could disincentivize foreign investment in China, the long-term economic goals highlighted at the NPC should nevertheless have significant impacts for the Canadian economy. It can position China as a compelling trade and investment partner for Canada into the future.

Questions will still remain, however, as to whether Beijing’s renewed focus on stimulating the economy and courting foreign investment will trump continued emphasis on security and self-reliance as a key part of the national discourse. Viewed from this perspective, Beijing’s recent cancellation of the annual Premier’s press conference is not an encouraging sign. It will be important, in the months that follow the NPC, to continue to examine Beijing’s posture and actions in order to ascertain whether its previously mixed signalling is beginning to abate.

**IMPACTS**

- The 2024 NPC saw the Chinese government largely echo the same economic targets as 2023: GDP growth goal of “around 5%”, a budget deficit of “around 3% of GDP”, and the creation of 12 million new urban jobs. This signals a cautious optimism among the nation’s policymakers, suggesting an expectation that the ailing real estate market will stabilize and domestic demand will rebound.

- The stated desire for China to increase its economic engagement abroad means that Canadian policymakers can likely expect a more accommodating diplomatic approach pertaining to international trade. Canada’s diplomatic relevance will also be enhanced as it prepares to assume the chairmanship of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – a free trade agreement that China is keen to join.

- Premier Li struck a very pro-business tone at the NPC, with an emphasis on developing a more open and mutually beneficial business environment for foreign entities. This means that Canadian businesses and investors should take a close look at potential opportunities for re-engagement against this more favorable diplomatic backdrop.

- In the short-run, Chinese demand for Canadian goods will likely increase amid a growing advanced manufacturing sector and increasing consumer demand.

**CONTEXT**

The 2024 NPC has provided a more definitive direction for China’s economic policy over the coming year. Prior to the March meetings, Beijing had confounded many observers by alternating between stricter government intervention in the economy – such as raids on foreign firms operating in China – and pro-private sector policies. This approach produced significant confusion, both domestically and abroad, as the nation attempted to navigate a multitude of economic challenges, including deflationary pressures, an ailing real estate market, and highly indebted local governments.
Amidst this skepticism, the 2024 National People's Congress could mark the beginning of a clearer economic policymaking direction for Beijing. Premier Li Qiang, in his delivery of the annual Government Work Report, outlined the specific economic growth targets and policy initiatives that the Communist Party of China (CPC) will implement for the remainder of the year. The major goals set by Premier Li included “around 5% GDP growth”, a budget deficit of “around 3% of GDP”, “around 12 million new urban jobs”, and an urban unemployment rate of “around 5.5%”, targets that remain largely unchanged from 2023. Notably, Premier Li also promised that the government would increase public spending by 1 trillion yuan (~US$139 billion) to provide further support to struggling sectors of the economy, injecting the economy with much-needed confidence. Reflecting on China's economy more broadly, Premier Li stressed the need for China to develop a more open domestic economy and pursue "high-quality development", understood as greater sustainable growth achieved by bolstering advanced manufacturing and greater domestic consumption.

Following the NPC's focus on “high-quality development”, future Chinese exports to Canada will continue to shift from cheaper consumer goods to more technologically advanced goods like electric vehicles (EVs). At the same time, more robust domestic demand in China, coupled with a growing middle class, will likely cause an increase in demand for higher-quality consumer goods. In this context, Canada will be widely viewed by Chinese consumers as a desirable source for such products. Another area of potential growth for Canadian exports is in the health care services sector, where China is increasingly looking to Western markets for the expertise needed to help it transition towards servicing a greying population in need of more state and private sector institutional care.

**ANALYSIS**

The economic policymaking direction outlined at the 2024 NPC by Premier Li has clarified to observers that the Chinese government will take action to combat economic headwinds while simultaneously building up future drivers of growth, namely advanced manufacturing and increased domestic consumption. The path of macroeconomic stabilization and long-run structural adjustments charted by this year's NPC will have many implications for Canada as a whole, particularly the Government Work Report's emphasis on greater openness to economic engagement abroad and the enduring vitality of the Chinese economy.

Throughout 2023, Beijing has been confronted by several economic challenges that have threatened China's status as the engine of global growth. There is worsening confidence in the Chinese economy, both domestically and internationally. This is illustrated, inter alia, by the high savings rate of Chinese consumers, their lack of appetite for real estate purchases, and a record number of FDI outflows, reaching the lowest level of net FDI inflows since 1993.

Lower confidence in the Chinese economy has been further exacerbated by a lack of clarity in the nation's economic policymaking direction. On one hand, Beijing implemented much needed stimulus measures to remedy the ongoing economic downturn by providing direct support to struggling sectors; 1 trillion yuan (~US$139 billion) in treasury bonds was recently issued to alleviate local government debt;
there were further reductions to the bank reserve ratio; and, the creation of “Project Whitelist”, which saw US$17 billion in loans to selected building projects facilitated by local governments. On the other hand, these measures were conducted in the backdrop of potential countering gestures that aimed to uphold the political priorities of the current leadership.

Notwithstanding, China is still likely to take a cautious and targeted approach in its efforts to stimulate economic growth and accomplish its goals for 2024. While the CPC seeks to address ongoing and interlinked economic challenges such as the property market downturn and potential deflation, it likely wishes to do so in a way that is reflective of its policy approach of “fine-tuning”. This means that the Chinese government will likely focus on structural adjustments in the economy, namely mitigating the challenges in the property market while simultaneously increasing the momentum of advanced manufacturing and shoring up domestic consumption. The “fine-tuning” approach stands in stark contrast to the “bazooka stimulus” strategy of 2008-2009, which saw the government inject large amounts of capital into the economy, including at the household level. Such large stimulus measures will likely be avoided by Beijing as they would likely risk reviving the debt crisis and increasing the likelihood of currency depreciation. Furthermore, aggressive cutting of interest rates by the People’s Bank of China as a means of increasing demand could risk capital flight from China to overseas assets, meaning that this avenue for stimulating demand is unlikely to be pursued.

Government investment is likely to focus on China’s commitment to innovation-backed advanced manufacturing as an engine of long-term growth. The CPC referred to such mechanisms as the “new productive forces” at the NPC. Relatedly, Premier Li explicitly mentioned the importance of the “New Three” – solar panels, batteries, and EVs – as a driver of economic growth.

Put differently, the 2024 NPC illustrates Beijing’s awareness of the need to take concrete action in simultaneously reversing the economic downturn and building up the foundations for China’s future economic growth. Nevertheless, some sectors that cry out for specific policy support measures, such as SMEs still-reeling from the long tail of Beijing’s Covid-zero era, as well as critically high levels of provincial off-balance sheet indebtedness, remain unattended to – meaning that significant drags on the economy may remain. Intensifying scrutiny both by the EU and the US of a broad array of key advanced manufacturing exports may also complicate Beijing’s plans in this regard over the near to medium-term.

The pro-growth messaging emanating from this year’s NPC also remains in sharp contrast with Beijing’s continued and stated focus on other priorities, such as national security. President Xi Jinping has notably championed the securitization of China’s economy over the course of his leadership, and this emphasis on security was reiterated in recent influential government reports, including the 2023 Central Economic Work Conference. Given the serious headwinds currently faced by the Chinese economy, it is likely that growth may indeed take primacy over security for the coming year. However, vigilance will continue to be necessary in assessing how – or if – these competing priorities will able to be reconciled over the longer term.

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