

**EMPLOYMENT AND LIVELIHOOD
TOP CHINESE GOVERNMENT'S
POLICY AGENDA IN 2020**

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Executive Summary

1. The year 2020 is an extraordinary year for China; its first quarter economy was severely damaged and struggling to revitalise its economic activities. As in previous years, the government laid out its development priorities and policy tools at its annual *lianghui* to support economic recovery and strengthen the foundation for sustainable development.
2. Most noticeably, the Government Work Report (GWR) did not specify any numerical target for growth in gross domestic product in 2020. This is significant, given that certain levels of growth are necessary for China to achieve its objectives set in the 13th Five Year Programme, 2015-2020, and the first centennial goal to build a comprehensive well-off society by 2020.
3. Instead, the 2020 GWR emphasises securing jobs, protecting people's livelihood and supporting small and micro-sized firms. The shift signifies the government's recognition of the huge challenges facing the economy, in particular the country's weak elements of low-paid workers and struggling small firms.
4. As of the *lianghui*, the government had announced numerous policies and initiatives. They are comprehensive in the types of measures, modest in the intensity and relatively well-defined in the intended targets.
5. First, fiscal measures have been issued in the forms of tax and fee reduction, emergency expenditure for combating the COVID-19, and special treasury bond and local government bonds. Altogether, they add up to a public sector deficit of over 11% of GDP, or a fiscal stimulus of 7%.
6. Monetary easing is also used to support the recovery, especially for the small firms with targeted loans and reduction in financing burden. By encouraging urban informal sectors, such as street vendors and gig economy, the government hopes to inject more dynamism into the economy.

7. In addition to coping with economic difficulties, the COVID-19 outbreak has made it a more urgent task for China to transform its economy and renew its sources of future growth.
8. Domestically, it would mean strengthening demand through both consumption and investment, and improving productivity through better allocation of resources, developing new sectors and transforming traditional ones. For these, the government has issued initiatives including those on factor market reforms, accelerating comprehensive reforms, new urbanisation and new types of infrastructure.
9. Externally, China is also facing mounting difficulties, including rising tension with the United States, shrinking external demand for China's products and disruption to global value chain where it plays a central role. The government is implementing the Phase I trade deal with the United States, reiterating its commitment to further opening and promoting economic ties with its neighbours.
10. Looking forward, huge uncertainties remain, most significantly in the global fight against COVID-19 and the tension between China and the United States.

EMPLOYMENT AND PEOPLE'S LIVELIHOOD TOP CHINESE GOVERNMENT'S POLICY AGENDA IN 2020

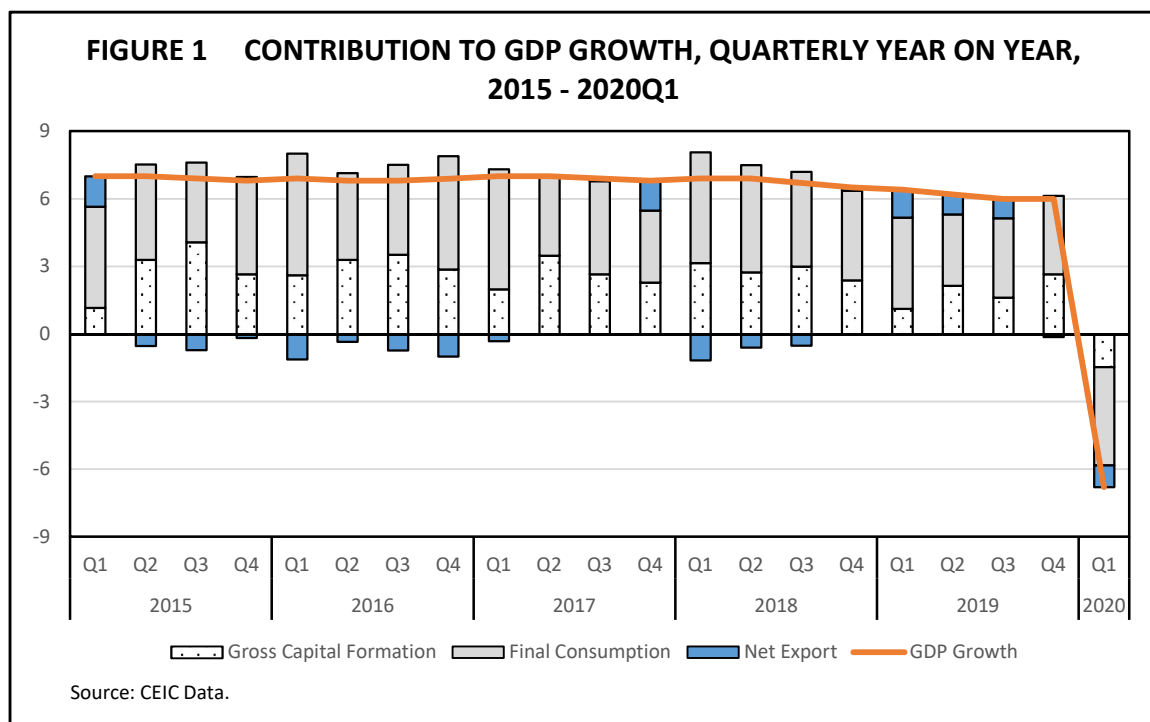
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***Lianghui* Signals a Strong Emphasis on Jobs and Poverty Reduction**

- 1.1 The annual National People's Congress (NPC) and National Committee of the Chinese People's Political Consultative Conference, often termed the annual *lianghui* or the two sessions, are an important occasion to gauge China's policy reactions for the year.
- 1.2 This year's duo-event was a much anticipated meeting. In most years, the two sessions are held in March and serve as an occasion when the government announces policies for the year, guided by the principles formulated at the CPC Central Committee's Economic Work Conference, which takes place in November or December of the preceding year. However, 2020 is unlike most years. Although COVID-19 has been under control in China, how China plans to restart and revitalise its economy will have significant implications for China and the rest of the world.
- 1.3 China's economic performance in 2020 matters significantly for both domestic and external audiences. First, 2020 is a landmark year for concluding China's 13th Five-Year Programme (FYP) and achieving the country's first centennial goal of building a "comprehensive well-off society". Second, after four decades of economic reforms and opening, China is now the world's second largest economy and its largest exporter; its growth is now a major driving force for the world economy due to its intensive integration into the world economy through trade, investment and global supply chains.

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- 1.4 After a two-month delay, the two sessions finally took place in late May, between 21 and 28 May 2020, after COVID-19 and the many constraining measures had caused serious destruction to the economy. The government reported a 6.8% contraction in the country's gross domestic product (GDP) in the first quarter vis-a-vis the same period in 2019 (Figure 1). A negative number is unprecedented since the government started reporting quarterly GDP figures in 1992; the nearly 13 percentage point drop from the previous record low of a 6% quarterly growth clearly signifies extraordinary difficulties in the economy.



- 1.5 Such exceptional circumstances make this year's *lianghui* different from those of the previous years. Most distinctively, the government abandoned a numerical growth target for GDP,¹ a step further away from a GDP-centred mindset that has dominated the government's administrative apparatus for decades. This is exceptionally significant for 2020 when a growth of 4.0% or 5.5% is needed to

¹ See Appendix for a compilation of development targets in Government Work Reports since 2016.

achieve targets set by the 13th FYP and for “building China into a comprehensive well-off society”,² respectively.

- 1.6 In place of an explicit GDP growth target for 2020, the government work report (GWR) emphasised the importance of supporting employment, securing people’s livelihood and reducing poverty. This more people-centred policy priority is the second feature of this year’s two sessions. To create jobs and protect livelihood, the central government has paid special attention to small businesses and shown greater inclination to channel funds to county governments responsible for carrying out administrative tasks and implementing policies.
- 1.7 Third, based on the aforementioned considerations, policies and measures issued as of the two sessions were numerous, wide-ranging, measured and targeted.³ These include fiscal stimulus measures in the forms of tax and fee reduction, emergency expenditure for combating the COVID-19, special treasury and local government bonds, and the use of unspent government funds and those from other sources (Table 1). In addition to an estimated fiscal stimulus of 7% GDP, monetary measures will be used to support the economy by providing greater credit support and targeted lending. The government has also reaffirmed its commitment to further reforms and continued opening, including factor market reforms, active facilitation towards the signing of the Regional Comprehensive Economic Partnership Agreements and promotion of China-Japan-South Korea free trade agreement.
- 1.8 The strong emphasis on jobs, livelihood and poverty reduction is a necessary policy reorientation as China’s economy is facing tremendous difficulties on both domestic and external fronts. At the same time, however, the government aims to turn the crisis into an opportunity for facilitating structural changes and cultivating new sources of growth. These include measures to facilitate domestic consumption and expand investment in areas essential to sustainable development, such as new types

² In the 13th FYP (http://www.xinhuanet.com/politics/2016lh/2016-03/17/c_1118366322.htm, accessed 12 June 2020) announced in March 2016, GDP is expected to reach RMB92.7 trillion in 2020. This is 4% more than the RMB89.2 trillion achieved for 2019, reported China’s National Bureau of Statistics. As part of the plan to build China into a comprehensively well-off society, the 13th FYP reiterated that “the doubling of GDP and per capita income from 2010 to 2020” is among the government’s major objectives in the years 2016 to 2020. To double GDP of 2010, in real term, the economy needs to grow by 5.5% in 2020.

³ The GWR stated that 90 policy measures have been enacted to provide assistance.

of infrastructure, new urbanisation and major projects of the “double new and a major” construction.

**TABLE 1 FISCAL STIMULUS POLICIES AND THEIR ESTIMATED COSTS
(RMB BILLION)**

	Through June 2020	Extended to all of 2020
Fiscal spending to control and treat the coronavirus	145.2	150
Exemption and deferral of corporate social insurance contributions (pension, unemployment and disability)	600	1000
Reduction of corporate medical insurance contribution	150	300
Waiver of tax and fees for businesses in hard-hit sectors such as transportation, catering and tourism	100	200
Waiver and reduction of VAT for micro, small and household businesses	250	500
Waiver and reduction of rents for affected businesses	50	100
Reduction of electricity rates	67	134
Waiver of road and expressway tolls	140	280
Total (RMB billion)	1,502	2,664

Source: http://www.xinhuanet.com/english/2020-05/06/c_139035958.htm, accessed 6 May 2020.

- 1.9 Overall, the 2020 two sessions show that, in a crisis and still facing uncertainties, the Chinese leadership and its policies are pragmatic and flexible. With a considerably shorter GWR, over 40% off in the number of words compared to that of 2019, the report has a much stronger focus. As highlighted by Premier Li Keqiang at his press conference, the government may issue new policies and measures depending on the changing domestic and external environment.
- 1.10 With policy flexibility, and the economy’s continental size and great internal diversity, China’s economy is likely to bounce back to expansionary mode, perhaps in the second half of the year, and attain a positive annual growth. There are signs of improvement in April and May. In April, the majority of firms resumed over half of their production, including close to 85% in industry, and more than 70% and 60% in services and construction, respectively.⁴ Industrial value-added grew by 3.9% year on year and urban surveyed unemployment rate dropped slightly to 6.0% from 6.1% in March. Improvement is also seen in trade. Exports grew by 8.1% and 6.4% in April and May, month-on-month, while import growth turned positive in May

⁴ Notably, figures are for above-scale enterprises in industry and services, and qualified construction enterprises. (Source: “Press conference by a spokesperson for the National Bureau of Statistics on China’s economic performance of April 2020”, http://www.stats.gov.cn/tjsj/sjjd/202005/t20200515_1745719.html, accessed 2 June 2020).

(5.1%) from a 6% contraction in April.⁵ In April and May, China also saw an increase in foreign direct investment (FDI) by 8.6% and 4.2% year on year, respectively.⁶

- 1.11 Development in several areas warrants close watch. These include the dynamics in the global battle against COVID-19, details of China's government policies and their effectiveness in revitalising the economy, and the development concerning China-US conflict in trade and competition in technology.

Weak Demand a Key Threat to China's Post-COVID-19 Recovery

- 2.1 China's economy has been severely damaged by the COVID-19 outbreak. Following a 6.8% contraction in its Q1 GDP from that a year ago, economic recovery started in April but remains gradual and partial. For example, total retail sale for May was still 2.8% lower than that of 2019 and fixed asset investment for the first five months was 6.3% lower year on year.⁷ Poor economic performance in the first quarter has been the major underlying factor for the government's strong policy emphasis on jobs and people's livelihood at the recently concluded two sessions.
- 2.2 The on-going pandemic has affected the economy in several ways. The first and immediate impact came from the various measures that restricted people's mobility, thus curbing many movement-related consumption activities, including tourism and entertainment like movie-going. Following the suspension of transportation linking Wuhan to other regions on 22 January, increasingly stringent measures were imposed in cities not only in Hubei province, but also across the country after provinces raised their health alert level to the highest.⁸

⁵ Statistics used in this brief are from CEIC Data, unless specified otherwise.

⁶ FDI had continued to slide from 12.7 billion in January to 10.1 billion in April and 9.9 billion in May (<http://www.nbd.com.cn/articles/2020-06-18/1447848.html>, accessed 19 June 2020).

⁷ http://www.stats.gov.cn/tjsj/zxfb/202006/t20200614_1760159.html and http://www.stats.gov.cn/tjsj/zxfb/202006/t20200614_1760157.html, accessed 19 June 2020.

⁸ For more discussion, please refer to Sarah Y Tong and Li Yao, "The COVID-19 Outbreak and Its implications for China's economy", *EAI Background Brief*, No. 1522, 31 March 2020.

- 2.3 The second is a result of the loss of productive activities due first to the extended Lunar New Year holidays and subsequent difficulties in resuming business operation after holidays ended. These difficulties include shortages of labour as many migrant workers were prevented from returning to work due to transportation restrictions, inadequate supplies of personal protective equipment and gaps in meeting other conditions required by the government for production resumption, and logistic bottlenecks in obtaining input for production.
- 2.4 The third is the considerably weakened demand that the pandemic had wrought both domestically and externally. This may not be a major contributor to the economy's poor performance in the first quarter, but will become more significant in the coming months. Several factors contribute to the weakness in domestic consumption, including the lingering fear of contracting the virus, weaker income, uncertainties over future prospects for jobs and income. Poor economic performance of the first quarter and uncertainties over the future will also weigh heavily on firms' investment decisions.
- 2.5 Official data show that in the first quarter, sectors such as "accommodation and catering trade" and "wholesale and retail trade" were the worst affected, with a 35% and 18% contraction, respectively (Table 2). These are the sectors with a large concentration of small private firms and the self-employed. In 2018, employment by private firms accounted for about 70% of total employment in wholesale and retail, three quarters in renting and business services, 58% in accommodation and catering, and 77% in resident services. Recovery in these and other sectors are far from complete. In April, sales by key retail enterprises were still down by 9.4% year on year, despite substantial improvement from the 16.9% drop in March.
- 2.6 Meanwhile, utilisation of power generating equipment was still 3.7% lower in April compared to that in 2019.⁹ Daily index for traffic congestion and delay shows the impact of the outbreak on economic activities, and the slow and gradual recovery (Figure 2). As recent as May 2020, the average level for China's 100 cities was still below that of May 2019.

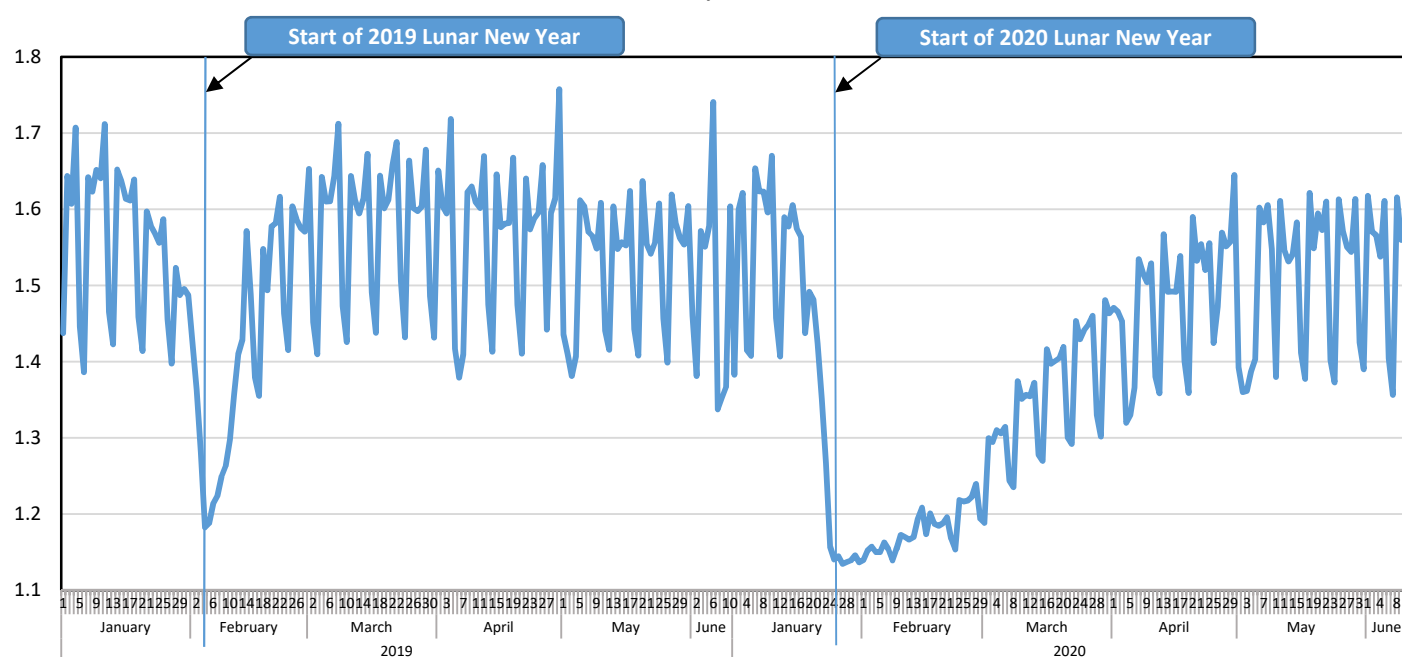
⁹ Nonetheless, this represents considerable improvement from a 13.3% fall in January and February combined, and a 7.5% decline in March.

TABLE 2 QUARTERLY GDP GROWTH YEAR-ON-YEAR BY SECTORS, 2018 - Q1 2020 (%)

	2018				2019				2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP	6.9%	6.9%	6.7%	6.5%	6.4%	6.2%	6.0%	6.0%	-6.8%
Primary Industry	3.2%	3.4%	3.6%	3.5%	2.7%	3.3%	2.7%	3.4%	-3.2%
Secondary Industry	6.2%	5.9%	5.3%	5.8%	6.1%	5.6%	5.2%	5.8%	-9.6%
Industry	6.4%	6.4%	5.9%	5.7%	6.1%	5.6%	5.0%	5.9%	-8.5%
Industry: Manufacturing	6.5%	6.5%	5.9%	5.6%	6.5%	5.5%	4.8%	5.9%	-10.2%
Construction	5.6%	4.4%	2.9%	6.4%	6.2%	5.1%	6.1%	5.3%	-17.5%
Tertiary Industry	7.8%	8.1%	8.3%	7.8%	7.0%	7.0%	7.1%	6.6%	-5.2%
Transport, Storage and Post	7.7%	8.1%	8.3%	8.8%	7.3%	7.3%	7.5%	6.3%	-14.0%
Wholesale and Retail Trade	7.2%	7.1%	6.7%	5.9%	5.8%	6.0%	5.5%	5.4%	-17.8%
Accommodation and Catering Trade	7.3%	7.0%	6.5%	6.1%	6.0%	6.4%	6.7%	6.2%	-35.3%
Financial Intermediation	2.6%	5.2%	5.2%	6.2%	7.1%	7.6%	6.9%	7.0%	6.0%
Real Estate	4.6%	4.0%	3.8%	1.8%	2.6%	2.5%	4.2%	2.5%	-6.1%
Information Transmission, Software and Information Technology Service	26.8%	28.9%	29.6%	26.2%	21.2%	20.1%	18.1%	15.6%	13.2%
Leasing and Commercial Service	12.1%	11.4%	11.1%	9.4%	8.5%	7.5%	8.6%	9.9%	-9.4%
Others	7.3%	7.0%	8.1%	7.9%	5.5%	5.7%	6.4%	6.0%	-1.8%

Source: CEIC Data.

FIGURE 2 INDEX OF CONGESTION AND DELAY, AVERAGE OF 100 CHINESE CITIES, 1 JANUARY - 10 JUNE 2019, 1 JANUARY - 10 JUNE 2020



Source: Gaode Traffic Big Data (WIND).

- 2.7 Notably, the hard-hit firms in service sectors are also among the slowest in resuming businesses, partly because consumers remain fearful of contracting the disease. In April, electricity consumption by the manufacturing industry was back to the level a year ago, up from a -6.4% in March. For the tertiary sector, electricity consumption in April was still 7.9% lower than that of 2019.
- 2.8 The hardest hit was the small and mostly private firms as they are most vulnerable to various shocks; the outbreak has hit sectors with a large concentration of small and private firms, such as low-end manufacturing and traditional services.¹⁰ This is significant as small, private firms have become the major provider of jobs, both in urban and rural areas.
- 2.9 According to the Ministry of Human Resources and Social Security, in 2019, private firms provided one third of urban jobs, up from 17.5% in 2010 (Table 3). Private firms also provided 83 million jobs in rural China, one quarter of the total. Together, they made up 30% of China's overall employment in 2019. If the urban self-employed is included, the share is more than half (52%). Meanwhile, jobs in the state sector has declined considerably, in numbers and in its share. Between 2008 and 2018, the number of employees in state-owned enterprises (SOEs) dropped from 64 million to 57 million, and its share in total urban employment from 20% to 13%.

TABLE 3 EMPLOYMENT, TOTAL AND BY SELECTED OWNERSHIP TYPES, 2000 - 2019

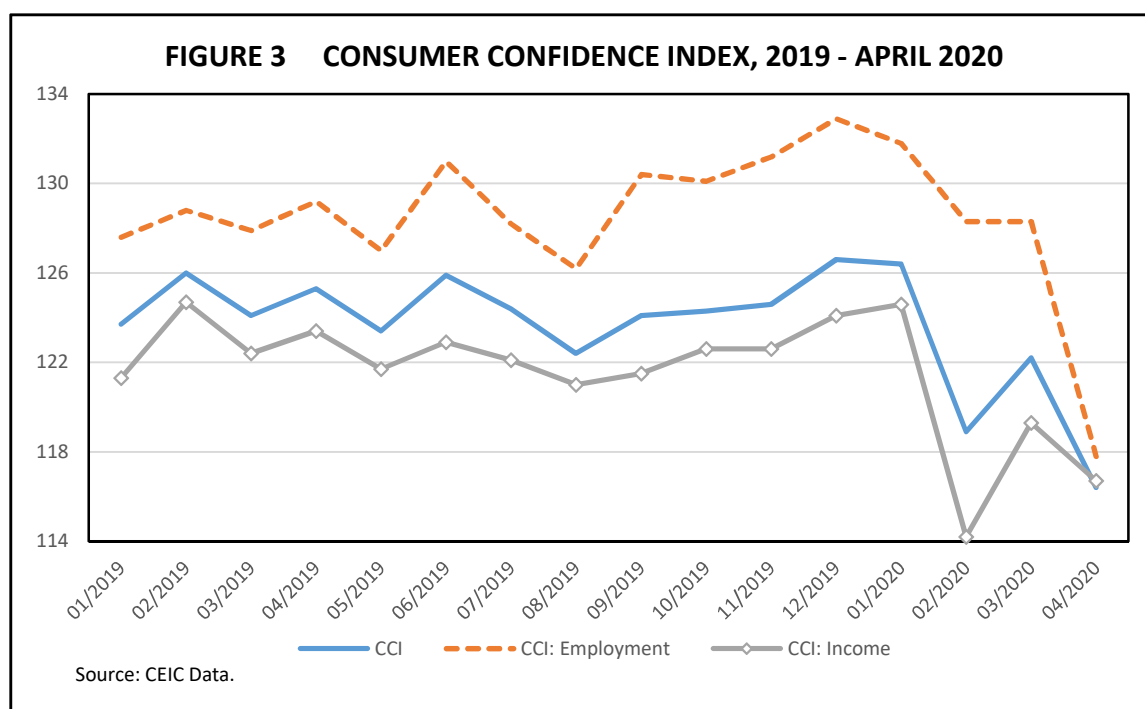
		Urban				Rural	Rural and urban private combined
	Overall	Total	SOEs	Private firms	Non-domestic	Private firms	
	mil	% in overall	% in urban	% in urban	% in urban	% in rural	% in overall
2000	720.85	32.1%	35.0%	5.5%	2.8%	2.3%	3.3%
2005	746.47	38.0%	22.9%	12.2%	4.4%	5.1%	7.8%
2010	761.05	45.6%	18.8%	17.5%	5.3%	8.1%	12.4%
2015	774.51	52.2%	15.4%	27.7%	6.9%	14.1%	21.2%
2018	775.86	56.0%	13.2%	32.1%	5.4%	21.7%	27.6%
2019	774.71	57.1%		32.9%		24.9%	29.5%

Source: Computed based on information from CEIC Data.

¹⁰ For example, during the first four months, sales of major retailer suffered a 14.9% contraction; the most seriously affected products included "garment", "knitwear and textile", "footwear and headgear", "furniture", "household electronics" and "sport and recreational goods". Manufacturing and other business activities related to these products are essential for many small firms.

2.10 Changes in the composition of employment is associated with evolving sectoral makeup of the economy where the tertiary sector has contributed over half of China's GDP since 2015 and its share in total employment reached 47% in 2019. Such structural changes have enhanced the role of small private firms in the economy. However, these firms and the employment they generated remained susceptible to negative shocks, especially when migrant workers, which constitute a large portion of the urban workforce, have not been effectively incorporated into a comprehensive social security system.

2.11 Concerns over job security and income weigh heavily on China's business and consumption prospects in the coming months. Figure 3 shows that overall consumer confidence index (CCI) dropped sharply in February and, after a modest recovery in March, declined again in April. CCI for employment has continued its downward trend since January, to reach its lowest since late 2017.



2.12 Purchasing Manager Indices (PMI) demonstrate similar caution over the economy. While PMI for non-manufacturing sector recovered stronger, from 29.6 in February to 53.6 in May, that for manufacturing sector had declined for two consecutive months, from 52.0 in March to 50.8 in April and 50.6 in May, albeit still maintaining at slightly above 50, the benchmark for a neutral outlook. In addition, PMI for small and medium-sized enterprise was lower than large firms and all had a considerably

lower PMI for “New Export Order”: 36.3 for large firms, 32.7 for medium firms and 36.2 for small firms in May.

- 2.13 Externally, demand for Chinese products has been considerably affected as COVID-19 is now a global pandemic. The world economy is expected to experience the most serious downturn in decades; major economies such as the United States, Japan and the EU are expected to contract this year. These will necessarily lead to lower income and less import demand for Chinese products. COVID-19 has prompted countries to become more inward-looking and self-reliant. Such tendencies will bring destruction to the global and regional supply chains where China is a central link.
- 2.14 As the Chinese government considers its policy objectives and options, two factors stood out. First, tens of thousands of micro-, small- and medium-sized firms are the most severely impacted, mainly in the tertiary sector and most vulnerable when business conditions worsen. They are also the main source of employment, which is key for China’s social stability and poverty reduction. Second, as China’s investment-dependent and export-oriented growth model has largely run its course, China has to accelerate its structural reforms and cultivate new sources of growth, through productivity increase and resilience in domestic consumption.
- 2.15 As a continental size economy, China has more space and diversity to weather this huge negative shock compared to smaller economies. It also faces other challenges of equal size and complexity. Tough decisions have to be made to push for bold reforms that reinforce China’s long-term sustainable development, including further market liberalisation to provide a more level playing field for state and non-state, domestic and foreign business entities, better fiscal rearrangement between central and local governments to provide enhanced alignment between revenue and expenditure responsibilities, and a system that incentivise innovative activities.

Fiscal Measures Are Stronger Than What Many Believe

- 3.1 Fiscal measures are important tools for achieving the government’s multiple objectives of supporting jobs, securing people’s livelihood, and increasing

investment. As such, the budget report, presented during the third session of the NPC meeting, was among the most anticipated during this year's grand gathering, for it is here that the government spells out how it plans to finance the work programme and the size of the stimulus it will provide.

3.2 The answer is however not straightforward. Estimates for the size of the stimulus vary considerably, ranging between two per cent and over 15% of GDP.¹¹ After careful examination of the budget and identifying all the components of stimulus spending, the authors believe the public sector deficit is about 11% of GDP, or a fiscal stimulus of 7%.¹²

3.3 While the government has not announced a simple headline number for the fiscal stimulus, the section "Fiscal Policy and Fiscal Tasks in 2020" in the Budget Report cites a few numbers:

- a) more than RMB2.5 trillion in tax and fee cuts;
- b) a fiscal deficit of RMB3.76 trillion, RMB1 trillion more than in 2019;
- c) a RMB1 trillion special COVID-19 bond; and
- d) RMB3.75 trillion in special project bonds to be issued by local governments – an increase of RMB1.6 trillion over 2019.

3.4 Based on these numbers, the fiscal stimulus amounted to RMB3.6 trillion,¹³ less than four per cent of GDP, which is seen as modest and disappointing. However, this is not the whole picture. In accordance with the revised Budget Law of 2015, the budget report to NPC includes four "budgets":

¹¹ The low estimate is from a video commentary in *SCMP* viewed on 4 June 2020 and the high one from the investment bank Morgan-Stanley. The differences are partly due to the definition of "stimulus" adopted – some analysts include only the government's budget deficit (the excess of expenditure over revenue), while others use an "augmented deficit" concept that also takes in off-budget loans of state entities such as local government financial platforms. The differences also stem from the complex and somewhat confusing way the budget has been presented in the report.

¹² For further detailed analysis, please refer to Christine Wong, "Uncovering China's fiscal stimulus policies in the budget report", EAI Commentary, forthcoming.

¹³ The stimulus is understood as the additional spending above that of the previous year. Among the four numbers specified, the tax and fee cuts (item a) translate into reduced revenue that show up in the fiscal deficit. The addition spending then is the sum of RMB1 trillion in additional fiscal deficit, RMB1 trillion in special COVID-19 bond, and the RMB1.6 trillion additional special project bonds to be issued by local governments.

- a) The general budget is the main account of the government. Revenues are derived from taxes and fees, and expenditures finance operations of government and delivery of public services;
- b) The government funds budget (GFB) is a mixed bag of revenues from widely divergent sources. In recent years, the biggest component is revenues from land leases, accounting for 85% or more of GF budget revenues, nearly all of which accrue to local governments;
- c) The state capital operating budget (SCOB) comprises profit remittances of SOEs under the purview of the State-owned Assets Supervision and Administration Commission. This is a tiny but growing component of fiscal resources; and
- d) The social security fund (SSF) budget comprises the revenues and expenditures of eight social insurance schemes for urban employees' pension, public employees' pension, basic pension for urban and rural residents, employees' health, basic residents' health, unemployment, disability and maternity.

3.5 Together, these four budgets present a fuller picture of revenues and expenditures of the government than was possible in the past, when reporting was confined largely to the general budget, with limited information on the government funds (Table 4).

3.6 Required by the 2015 Budget Law, reforms have been ongoing to bring fiscal resources step-by-step under unified management in the general budget. For example, the number of funds in the GFB has been cut from more than 50 to around 20, with some of the revenue streams brought into the general budget. The Budget Law also expanded the scope and set new rules for profit remittances into the SCOB from SOEs.

3.7 The four budgets make the budget report a long read. Moreover, four additional aspects of the reporting contribute to making the budget presentation confusing and virtually impenetrable. First, each of the first three budgets is presented in three parts, namely, the central government portion, the local government portion and the sum of the two. There are intergovernmental transfers in each budget.

TABLE 4 THE FOUR BUDGETS OF GOVERNMENT

(RMB billion)	2017	2018	2019	2020 Budget
General Budget				
Revenues	17,259	18,336	19,038	18,027
<i>Shares of consolidated revenues</i>	<i>58.5%</i>	<i>53.8%</i>	<i>52.9%</i>	<i>52.6%</i>
Expenditures	20,309	22,090	23,887	24,785
<i>Shares of consolidated expenditures</i>	<i>64.3%</i>	<i>59.4%</i>	<i>58.6%</i>	<i>54.0%</i>
General budget balance	-3,049	-3,754	-4,849	-6,758
<i>General budget balance (share of GDP)</i>	<i>-3.7%</i>	<i>-4.1%</i>	<i>-4.9%</i>	<i>-6.5%</i>
Government Fund Budget				
Revenues	6,146	7,541	8,452	8,145
<i>Shares of consolidated revenues</i>	<i>20.8%</i>	<i>22.1%</i>	<i>23.5%</i>	<i>23.8%</i>
Expenditures	6,196	8,149	9,137	12,612
<i>Shares of consolidated expenditures</i>	<i>19.6%</i>	<i>21.9%</i>	<i>22.4%</i>	<i>27.5%</i>
State Capital Operating Budget				
Revenues	264	291	396	364
<i>Shares of consolidated revenues</i>	<i>0.9%</i>	<i>0.9%</i>	<i>1.1%</i>	<i>1.1%</i>
Expenditures	202	215	229	261
<i>Shares of consolidated expenditures</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.6%</i>
Social Security Fund Budget				
Revenues	5,844	7,900	8,084	7,729
<i>Shares of consolidated revenues</i>	<i>19.8%</i>	<i>23.2%</i>	<i>22.5%</i>	<i>22.6%</i>
Expenditures	4,865	6,738	7,499	8,228
<i>Shares of consolidated expenditures</i>	<i>15.4%</i>	<i>18.1%</i>	<i>18.4%</i>	<i>17.9%</i>
Consolidated fiscal revenues	29,513	34,067	35,970	34,264
Consolidated fiscal expenditures	31,573	37,193	40,752	45,887
<i>Consolidated fiscal revenues (% of GDP)</i>	<i>35.5</i>	<i>37.1</i>	<i>36.3</i>	<i>32.8</i>
<i>Consolidated fiscal expenditures (% of GDP)</i>	<i>37.9</i>	<i>40.5</i>	<i>41.1</i>	<i>43.9</i>
Consolidated fiscal balance	-2,059	-3,126	-4,781	-11,623
<i>Consolidated fiscal balance (share of GDP)</i>	<i>-2.5%</i>	<i>-3.4%</i>	<i>-4.8%</i>	<i>-11.1%</i>
<i>Memo: Nominal GDP</i>	<i>83,204</i>	<i>91,928</i>	<i>99,087</i>	<i>104,444</i>

* 2020 budget figure is adjusted for the extension of waivers and reductions of unemployment.

** World Bank forecast. insurance payments, estimated at an additional RMB500 billion in reduced revenues.

Source: MOF final accounts for 2017, 2018 and NPC Budget Report, May 2020.

3.8 Second, there are annual contributions from the GFB and the SCOB to the general budge, but the rules guiding them are unclear. Third, the reporting is on a cash flow basis, with the balance for each component reported as the net of all inflows and outflows. Table 5 is an example of the central government general budget balance for 2020.

3.9 Finally, the budget deficit is reported only for the general budget and there is no overall consolidation of the four budgets. Instead, what is designated as the official budget deficit is the net cash balance in the general budget after bringing in

contributions from the other budgets as well as from the Budget Stabilisation Fund (BSF) and other rollovers. Information from budget reports to NPCs in recent years is presented in Table 6 to show how official deficits are derived.

**TABLE 5 CENTRAL GOVERNMENT GENERAL BUDGET
2020, RMB BILLION**

Own revenues	8,277
Transfer from BSF	530
Transfers from central GFB and SCOB	359
Total available revenues	9,166
Own expenditure	3,503.5
Transfers to local governments	8,391.5
Transfer to reserve funds	50
Total expenditures	11,945
Budgeted deficit	-2,779

Source: http://www.mof.gov.cn/gkml/caizhengshuju/202005/t20200530_3523307.htm, accessed 30 May 2020.

TABLE 6 BUDGET DEFICIT REPORTING TO NPC (2015 - 2020)

(RMB billion)	General budget deficit	Funds brought in from rollovers, BSF, the GFB and SCOB	Funds put in BSF	Designated official deficit
2015	2,355.1	805.5	70.4	1,620
2016	2,828.9	727.1	78.2	2,180
2017	3,076.3	1,013.9	317.5	2,380
2018	3,755.4	1,477.3	101.9	2,380
2019	4,849.2	2,216.1	126.9	2,760
2020	6,758.0	2,998.0	0.0	3,760

Source: Budget reports to the NPC, 2015-2020. The 2020 figures are from the draft budget. All others are actual figures for the year just completed.

3.10 This treatment of the deficit is consistent with the notion that the general budget is the main account of the government, but it obscures the true size of the stimulus effort. In a press conference just after the NPC, for example, Finance Minister Liu Kun cited “the difference between budget expenditures and revenues of more than six trillion yuan” as the size of the injection of funds to stimulate the economy.¹⁴ What is notable in the current budget is that the size of funds brought in from outside the general budget is exceptionally large compared to trend – a net injection of

¹⁴ What is the special meaning of the two “1 trillion yuan”? Xinhuanet, 24 May 2020. http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/xinhuanet/202005/t20200524_3519238.htm, accessed 24 May 2020.

RMB3 trillion, compared to RMB2.2 trillion in 2019 and RMB1.5 trillion in 2018 (Table 6).

- 3.11 The authors believe that the consolidated fiscal deficit of RMB11.62 trillion (11.1% of GDP, Table 4) is a more accurate reflection of the public sector deficit for 2020, rather than the official deficit of RMB3.76 trillion. This is a sizeable increase from the RMB4.78 trillion (4.8% of GDP) for 2019.
- 3.12 Another notable feature of the stimulus programme this year is the creation of a special transfer mechanism to send RMB2 trillion from the Special COVID-19 Bond and the fiscal deficit directly to the prefectures and counties for expenditures in support of the policy priorities of “six ensures” and “six stabilities”.
- 3.13 This is significant, as virtually all of the public services that touch people’s lives – the large and costly public services such as education, health care, social security and welfare programmes, or the people’s livelihood services (民生事业) – are provided by governments at the county and district levels.
- 3.14 Along with cities at the prefectural level, these governments are responsible for implementing the bulk of the stimulus policies to support enterprises and employment – tax cuts and fee waivers, reductions in rent and interest payments, among others. They are also responsible for administering the unemployment insurance programmes and other social protection measures in providing *dibao* (低保) or minimum income guarantee, price subsidies and other support to provide a safety net for those in economic hardship. During the COVID-19 crisis and in its aftermath, it is vitally important to ensure that local governments at these grass-roots levels have the resources to perform their normal functions in providing services.
- 3.15 The new transfer mechanism would allow the “two one-trillion” to bypass the normal, time-consuming process whereby central transfers are sent downwards level-by-level through the administrative hierarchy, from the central treasury to the provincial treasuries, and from there to the prefectural (municipal) treasuries, and finally to the counties and districts. Given the urgency of the COVID-19 situation, the mechanism is intended to channel money more quickly to where it is needed,

and prevent the leakages and diversions that often plague other transfers when the intermediary levels of local governments are facing fiscal gaps too – a situation that has marred China’s intergovernmental fiscal system since the 1994 tax-sharing system reform.¹⁵

Combining Policy Measures to Achieve Multiple-Targeted Objectives

- 4.1 Apparently, fiscal measures by themselves are far from adequate to tackle the many economic difficulties China is facing. Indeed, a range of policies has since been announced as early as February, and more intensively in recent months. These include measures issued by the tax authority, the central bank and other branches of the central government, as well as local authorities to provide sufficient support in the forms of liquidity, employment, and demand to help businesses and the population to get through this very challenging time.
- 4.2 In general, these measures are to fulfil a number of objectives, the first of which is to support businesses, especially medium, small and micro-sized ones, through reducing costs, easing cash flow problem and improving access to credit for the sustainability of firms through “releasing water to raise fish”. This is done mainly through three major channels: financial tools, fiscal measures (including those concerning social security) and SOEs. Financially, the government aims to enhance access to loans and reduce financing cost through measures such as expanding the scope of government financing guaranty, reducing guaranty fees and supporting bond financing for businesses. A strong focus is placed on using innovative new monetary policy tools to stimulate the real economy.
- 4.3 On 1 June, shortly after the two sessions, People’s Bank of China introduced two new market oriented innovative monetary policy tools, the “loan extension support” and the “loan credit support”, both designated specifically for medium, small and micro enterprises.¹⁶ The first is to enable bank loan payment delay by small firms

¹⁵ World Bank (2007). China: Public Services for Building the New Socialist Countryside. Report No. 40221-CN, 2007. Published in English and Chinese as 改善农村公共服, Beijing, CITIC Press (中信出版社). May 2008.

¹⁶ http://www.xinhuanet.com/fortune/2020-06/03/c_1126066588.htm, accessed 3 June 2020.

till the end of March 2021, by compensating lenders' interest losses through interest rate swap set at RMB40 billion. This policy is expected to help banks extend the payment period of loan principal by about RMB3.7 trillion.

- 4.4 The second aims to encourage loans to small firms by small and mid-sized banks such as city commercial banks, rural commercial banks, rural cooperatives and private banks. It plans to use RMB400 billion of relending funds to purchase 40% of uncollateralised loans with at least six-month maturities, made between March and the end of 2020 to small and medium-sized enterprises. This policy is expected to unleash about RMB1 trillion in new loans for small and micro enterprises while avoiding liquidity flooding associated with lowering reserve ratios and interest rates.
- 4.5 Fiscal measures are important tools to lessen cost and improve liquidity; they include tax and fee reductions, issuance of special government bonds for COVID-19, and deferral and reduction in social security contribution. The government also acts through state-owned entities to support business, such as providing interest concessions through state-owned commercial banks, rent reduction and exemption through state-owned real estate firms, and price reductions for electricity and broadband by state firms.
- 4.6 The third is to support jobs. In addition to the assistance to business mentioned earlier, which can increase employment indirectly, the Chinese government has formulated various policies to directly enhance job security. The word “employment” is second only to “pandemic” in the frequency it appeared in the 2020 GWR; in the 2019 GWR it ranked after phrases such as “reform”, “development” and “innovation”. In the GWRs of both 2019 and 2020, particular attention has been placed on three groups of people within the labour force, namely, fresh college graduates, demobilised military personnel and rural migrant workers.
- 4.7 The 2020 GWR highlighted two informal channels to stabilise employment: the “stall or street vendor economy” and the “gig economy”. It states that there are hundreds of millions of flexible employees such as freelancers and other types of employees with flexible working schedules for jobs including contracting and odd jobs in China. The GWR also states that there will be more places designated for

street stall operation. During the two sessions, Premier Li cited Chengdu where 100,000 jobs were created overnight by setting up 36,000 street vending units.¹⁷

4.8 Since then, “street stall economy” has become a buzzword on social media platforms and many cities have eased restrictions, allowing vendors to set up booths in designated areas to help revive local economies. In Chongqing, the government provides 10,000 square metres of commercial area rent-free for small vendors for three months.¹⁸ In Ruichang, a city in Jiangxi province, staff from the local bureau for urban administration and law enforcement, or 城管,¹⁹ even called vendors in person to press them to resume business in certain designated areas.²⁰

4.9 While urban informal sectors such as the street vendors is important for revitalising local economies and creating jobs, there are also concerns pertaining to poor product quality and food safety, and impediment to traffic. Some localities have released official documents to enhance the management of street stall operations. For example, in early June, Shanghai Urban Management and Law Enforcement Bureau issued a guideline, which aims to improve management of street stalls and night markets.²¹

4.10 Meanwhile, the gig economy has also attracted increasing attention after it was cited by Premier Li Keqiang at his press conference after the two sessions as an important

¹⁷ <https://www.caixinglobal.com/2020-06-04/chinas-promise-for-return-of-stall-economy-boosts-van-maker-shares-101562811.html>, accessed 4 June 2020.

¹⁸ <http://atimescn.com/videoview-13786.html>, accessed 17 June 2020.

¹⁹ Despite the name of the agency, staff from this bureau, 城管, act as plainclothes police responsible for maintaining civil order in the neighbourhoods including marketplace for street vendors across Chinese cities. Meanwhile, these plainclothes police report to the city administration bureau rather than the Public Security Bureau.

²⁰ China’s major tech platforms such as Alibaba, Tencent, JD.com and Meituan are also offering help to street vendors. For example, Alibaba’s wholesale marketplace 1688.com issued a plan in late May to connect street sellers directly with factories, while offering stall operators with a total of RMB70 billion of interest-free loans (<https://finance.sina.com.cn/chanjing/gsnews/2020-06-04/doc-iirczymk5207241.shtml>, accessed 5 June 2020). On 2 June 2020, Tencent’s WeChat payment platform announced plans to help small businesses with digitalisation, as well as offer them business guidance and marketing support. On the same day, the e-commerce platform JD.com also launched “Spark”, an economic support plan for stall owners and shopkeepers. Under the plan, JD.com will source about RMB50 billion worth of quality goods and provide each small shop with a RMB100,000 interest-free loan to stock the items.

²¹ <http://www.shanghai.gov.cn/nw2/nw2314/nw2315/nw17239/nw17240/u21aw1451584.html>, accessed 4 June 2020.

channel to help provide up to 200 million jobs. Gig work has been part of China's informal urban sector, especially since the 1980s when rural-urban mobility restriction was relaxed. Examples include on-demand plumbers standing by the street side, weekend babysitters and hourly paid housekeeping workers. Since 2015, the Internet Plus strategy has helped to develop the gig sector through digital platforms and related businesses.

- 4.11 An estimated over 110 million people form part of China's gig economy, including freelance writers, cab drivers, petsitters, livestreamers, house cleaners and couriers, accounting for about 15% of China's entire labour force,²² which is critical for stabilising employment for people with a wide range of skills and levels. In the unknown post-COVID-19 world where many existing industries are severely damaged and jobs are lost, the gig economy may become more important not only to provide income, but also in forming new sectors or new models of businesses.
- 4.12 The development of the gig economy and its management face two difficulties. One is how employers could exercise effective monitoring and management of the work carried out somewhat independently by employees. The other is how to ensure fair and timely compensation to employees. In a world where digital economy is becoming increasingly important, policymakers are facing fresh challenges in formulating effective rules to govern an internet-based new gig economy.
- 4.13 The fourth is to stimulate domestic demand in the forms of both consumption and investment. On consumption, the GWR has stipulated certain industries to receive government support, without giving details. Industries such as restaurant, shopping malls, culture and entertainment industry, tourism, elderly and child-care services, car industry and health industry, which are mostly in the tertiary sector and closely related to the population's daily consumption activities, have since March been the target of local government assistance in the form of consumption coupons. By 29 April 2020, 23 local authorities had issued consumption coupons worth more than RMB6.2 billion.

²² <https://foreignpolicy.com/2018/09/07/chinas-gig-economy-is-driving-close-to-the-edge/>, accessed 8 June 2020.

- 4.14 While not highlighted as a policy focus in the GWR, investment remains an important measure to support the economy. The 2020 GWR specified that the priority will be given to the “double new and a major”, namely, new infrastructure and new urbanisation initiatives, and major transportation and water conservancy projects. They aim to not only boost consumption and benefit the people, but also facilitate structural adjustments and enhance the sustainability of China’s economic development.

Promoting Structural Reforms for the Long Run

- 5.1 While stabilising the economy, especially through securing jobs and people’s livelihood, tops China’s policy agenda, the slowdown in productivity improvement has been a long-term concern for the government. Indeed, China’s total factor productivity (TFP) that measures the economy’s efficiency increase and technological progress has been declining since the outbreak of the global economic crisis in 2008.²³
- 5.2 One key channel of TFP enhancement is to reallocate resources from low-productivity firms or activities to high-productivity ones.²⁴ As such, improving allocation efficiency in the factor markets is significant; in particular, greater market competition is essential for reducing distortion due to government interventions such as local protection and restriction over labour mobility.
- 5.3 In addition, infrastructure that supports industrial upgrading and technological innovation (or the “new types” of infrastructure) is important for improving productivity. For example, since 5G (the 5th generation mobile network) can largely improve the speed of digital data communication via the internet, building 5G stations can support the emergence of new industries, such as telemedicine, and improve productivity for traditional industry via the Industrial Internet.

²³ Qian, J. (2020). Chinese Economy in 2019: Structural Reforms and Firms’ Behaviour amid Growing Uncertainties. *East Asian Policy*, 12 (01), 5-18.

²⁴ Restuccia, D and Rogerson, R (2013), Misallocation and productivity, *Review of Economic Dynamics* 16 (1): 1–10; and Restuccia, D and Rogerson, R (2017). The causes and costs of misallocation. *Journal of Economic Perspectives*, 31 (3), 151-74.

- 5.4 Since the beginning of 2020, the Chinese government has announced several policy initiatives to promote structural reforms, among which reforms in production factors markets and building the “new types” of infrastructure are two major ones. First, in April, CPC’s Central Committee and the State Council jointly released a guideline to facilitate efficient allocation of production factors, including land, labour, technological knowledge, capital and data, by letting the market play a bigger role.²⁵
- 5.5 The guideline highlighted reforms in the land transfer mechanism, such as developing an urban-rural integrated land market and giving more flexibility for rural land transfer between categories. A nationwide land quota exchange system will also be established. The guideline indicates further deregulation of the labour market. With exceptions of a few megacities, domestic migrants will be granted residential status to enable equal access to public services in education and health care.
- 5.6 Market-based allocation of labour and land was also featured in the guideline for the implementation of the “New Forms” of urbanisation released in April 2020.²⁶ Under this guideline, restrictions for migrant workers to obtain *hukou* in most cities will be removed. Public services will also be accessible to all residents including those without a local *hukou*. Meanwhile, the government will continue with various pilot programmes for urban-rural integration, including setting up an organisation to facilitate rural-urban mobility and developing land-transfer markets.
- 5.7 The mobility of capital and technology will be facilitated by the provision of financial service and services for technology transfer. On financial service provision, the guideline on factor-allocation indicates that barriers to entry will be reduced and, in general, the financial sector will be gradually opened to foreign institutional investors. Services for technology transfer will also be strengthened by promoting marketisation of technology transfer and building human resources to provide technology transfer-related services. Finally, to enhance data’s role as a new and important input to the economy, the guideline promotes data sharing among

²⁵ http://www.gov.cn/zhengce/2020-04/09/content_5500622.htm, accessed 27 June 2020.

²⁶ http://www.gov.cn/zhengce/zhengceku/2020-04/09/content_5500696.htm, accessed 27 June 2020.

government agencies, as well as data flow between the public and private sectors and enable the public's access to certain government data.

- 5.8 The “Opinions to Accelerate Improvement of Socialist Market Economy in New Era”, released in May 2020, is another important initiative to promote reforms²⁷ where market-based allocation of production factors is again emphasised. For example, the Opinion requires the full implementation of an *ex ante* administrative procedure for fair competition (公平竞争审查制度). Accordingly, all government departments have to demonstrate *ex ante*, or before any policy announcement, that they have complied with fair competition requirements defined by the Anti-Monopoly Law in relation to market entry, domestic trade, industrial development, procurement and project bidding.²⁸
- 5.9 The “New Types of Infrastructure” including artificial intelligence, 5G and the Industrial Internet, ultra-high voltage power transmission, intercity rail lines, electrical vehicle charging stations and big data storage centres are considered critical for long-term economic and social development in China.²⁹ In March, China Centre for Information Industry Development (CCID),³⁰ a government-linked think tank, estimated investment in the new types of infrastructure to reach RMB17 trillion by 2025 (Table 7).
- 5.10 Many of these “New Types of Infrastructure” aim to support the development of the digital economy. The data infrastructure including 5G, Industrial Internet, big data storage centres and others are expected to improve the productivity of data as a new production factor. Another set of the new infrastructure is to facilitate industrial upgrading and support “new forms” of urbanisation. For example, the ultra-high voltage power transmission is considered as a major support to the strategy of sustainable development. Intercity rail lines are regarded as critical for metropolitan areas development such as in the Greater Bay Area. Scientific research and

²⁷ http://www.gov.cn/zhengce/2020-05/18/content_5512696.htm, accessed 27 June 2020.

²⁸ In addition, the Opinion underlined SOEs and mixed ownership reforms where a modern corporate governance structure is once again highlighted as a mechanism to improve efficiency.

²⁹ <https://www.jiqizhixin.com/articles/2020-03-07-2>, accessed 27 June 2020.

³⁰ CCID is a think tank under China's Ministry of Industry and Information Technology.

technological development will also be supported by more investments in “the Infrastructure of Innovation”, another component of “New Types of Infrastructure”.³¹

**TABLE 7 “NEW TYPES OF INFRASTRUCTURE” INVESTMENT
BY 2025 (RMB TRILLION)**

	Direct investment	Total investment
5G	2.50	5.0
Ultra-high voltage power transmission	0.50	1.2
Intercity rail lines	4.50	5.7
Electrical vehicle charging stations	0.09	0.27
Big data storage centres	1.50	3.5
Artificial intelligence related infrastructures	0.22	0.4
Industrial Internet	0.65	1.0
Total	9.96	17.07

Source: Estimated by CCID think tank, March 2020.

5.11 Market-based allocation of production factors together with the “New Types of Infrastructure” will be the focus of reforms that could affect other social and economic policies in the coming years. For example, in the “Guideline on Advancing the Development of Western Regions”, released in May 2020,³² initiatives in line with market-based allocation of factors and the “new types” of infrastructure building were highlighted as the focuses for the development of the western regions.

³¹ http://www.xinhuanet.com/2020-04/21/c_1125882668.htm, accessed 1 July 2020.

³² http://www.gov.cn/zhengce/2020-05/17/content_5512456.htm, accessed 27 June 2020.

APPENDIX DEVELOPMENT TARGETS IN GOVERNMENT WORK REPORTS, 2016 - 2020

	2016		2017		2018		2019		2020
	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected
GDP growth	6.5%~7%	6.7%	~6.5%	6.9%	~6.5	6.6%	6.0~6.5	6.1%	No specific target
CPI	~3%	2%	~3%	1.6%	~3%	2.1%	~3%	2.9%	~3.5%
New urban employment	>10 million	13 million	>11 million	13.5 million	>11 million	13.6 million	>11 million	13.5 million	>9 million
Urban registered unemployment	<4.5%	4.02%	<4.5%	3.90	<4.5		<4.5	3.6%	~5.5
Urban (survey) unemployment					<5.5	~5%	~5.5%	<5.3	~6.0
Trade	Stabilise and improve	(in goods)*	Stabilise and improve	(in goods)*	Stabilise and improve	(in goods)*	Stabilise and quality upgrade	(in goods)*	Stabilise and quality upgrade
Export		-7.2%		11.4%		9.1%		-0.8%	
Import		-4.2%		16.0%		16.2%		-2.4%	
Export+Import		-5.9%		13.4%		12.2%		-1.5	
Balance of Payment	Roughly balanced		Roughly balanced		Roughly balanced		Roughly balanced		Roughly balanced
Current account		US\$202 billion*		US\$195 billion*		US\$25 billion*		US\$141 billion*	
Capital and financial account		US\$27 billion*		US\$18 billion*		US\$153 billion*		US\$57 billion*	
Poverty reduction (rural)	>10 million	12.4 million	>10 million		>10 million	13.86 million	>10 million	11 million	Complete
Per capita income growth	In line with GDP growth	6.3%	In line with GDP growth	7.3%	In line with GDP growth	6.5%	In line with GDP growth	5.8%	In line with GDP growth
Energy intensity	3.4% reduction or more	5% reduction	3.4% reduction or more	NA	3.0% reduction or more	3.1% reduction	~3% reduction	2.6%	Further deduction
Emissions of major pollutant (COD, ammonia nitrogen, sulphur dioxide and nitrogen oxides)	Reduction of 2%, 2%, 3% and 3%	NA	Reduction of 2%, 2%, 3% and 3%	NA	Reduction of 2%, 2%, 3% and 3%	NA	Reduction of 2%, 2%, 3% and 3%	NA	Further deduction

Note: *based on Balance of Payments statistics.

Source: Government Work Report 2020 (http://www.gov.cn/premier/2020-05/29/content_5516072.htm, accessed 12 June 2020); Statistical Communiqué of the People's Republic of China on National Economic and Social Development in 2019 (http://www.stats.gov.cn/tjsj/zxfb/202002/t20200228_1728913.html, accessed 12 June 2020); CEIC Data Manager; and Sarah Y Tong, "Sustaining Growth Through Market-Friendly Reforms in China", *EAI Background Brief*, No. 1448, 18 April 2019.